BARBARA DAFOE WHITEHEAD, DAVID POPENOE, ARLENE SKOLNICK: *FAMILY TROUBLE*

SEPTEMBER-OCTOBER 1997
$4.95 USA/$5.95 CAN

THE AMERICAN PROSPECT

A JOURNAL FOR THE LIBERAL IMAGINATION

Can't We Go *FASTER?*

NO **by Alan Blinder**

YES **by Barry Bluestone and Bennett Harrison**

MAYBE **by James K. Galbraith**

Alan Wolfe *Why Work?* ■ **Paul Berman** *Why Labor*

David Barringer *The City as Carnival*

SEPTEMBER-OCTOBER 1997 NUMBER 34

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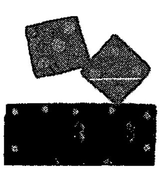
DEPARTMENTS

FEATURES



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THE AMERICAN PROSPECT

Printed in the United States. *The American Prospect* (ISSN 1049-7285) is published six times a year by The American Prospect, Inc., P.O. Box 383080, Cambridge, MA 02238. Our internet mail address is info@prospect.org. Subscription rates for individuals in the U.S.: $25 a year; $40 for two years; $15 for students. University libraries: $60 a year; $100 for two years. Other institutions: $40 a year. Foreign subscribers add $15 a year. *The American Prospect* is distributed by Ingram Periodicals, Bernhard DeBoer, Inc., and other distributors. For advertising information, contact Kim Mullin, business manager, (800) 872-0162. For information about reprints or distribution, call (617) 547-2950. To reprint for classroom use, contact CCC Academic Permissions Service, 222 Rosewood Drive, Danvers, MA 01923, (508) 750-8400. Issue copies are available on 16 mm microfilm, 35 mm microfilm, and 105 mm microfiche through University Microfilms, Inc., (313) 761-4700. Periodicals class postage paid at Boston, MA, and an additional post office. Postmaster: Please send address changes to *The American Prospect*, P.O. Box 383080, Cambridge, MA, 02238.

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EDITORS' NOTE

As the stock market hits new highs and the unemployment rate dips below 5 percent, the American economy seems to be hitting its stride. But the growth has actually been modest by historic standards, and it still isn't being widely shared. Hence our central debate in this issue is on growth, work, and opportunity: Can't we grow faster than the 2.1 to 2.3 percent limit accepted by the Clinton administration, the Congressional Budget Office, and the Federal Reserve? In the face of that "speed limit," Alan Blinder says "yield," Barry Bluestone and Bennett Harrison say "accelerate," and James K. Galbraith says "hit the pedal and see what happens."

But employment isn't just an economic issue. As Alan Wolfe argues in his review of books about work and culture, we ought to think about work not just as a "disutility," as the economists call it, but as an organizing moral principle that helps us make sense of our lives. And as Paul Berman suggests, labor unions have historically not only delivered "more" to their members—more money, more benefits, more leisure—but have also upheld concerns about justice. Which is why, as a writer, Berman still feels a special kinship with unions, imperfect as they are.

In this issue, two articles inaugurate a new *American Prospect* series about cities: "The New Urban Gamble," David Barringer's probing analysis of attempts to revitalize cities by building stadiums and casinos, and "An Invisible Community," Sudhir Alladi Venkatesh's report on life inside one of America's most feared public housing projects. Supposedly, cities are better off when they build "carnival" attractions and demolish public housing. Perhaps someone will be better off, but these articles suggest that it won't be the urban poor.

But one thing might help: If we bring unemployment down even lower, employers will finally need the hands (and minds) of the least desirable job seekers in the inner city. The long arm of the Fed extends down to the streets of the ghetto—an invisible arm, but one that public policy and national debate can affect. Which is one reason the debate in this issue matters for us all. ❑

ROBERT KUTTNER

Wayne's World

Our text, fittingly enough, is the editorial page of the *Wall Street Journal.* At the top of the page for June 3 is an essay by Wayne Angell, the former governor of the Federal Reserve. "Over the past 15 years stock prices in the U.S. have risen at a 15 percent annual rate," he begins. "This long bull market didn't just happen. There is a rational explanation. Economic policy has brought the U.S. to a new economic era—an era of stable money and lower income tax rates."

Inflation is at a reassuring 2.5 percent, Angell continues. "The market may have already risen on expectations of a reduction in the nominal capital gains rate." But "if the Federal Reserve allowed inflation rates to escalate, it would be a disaster for the equity market. By my estimate, if inflation rose to 4 percent, the Dow could be expected to fall to 6500. . . . If inflation were 5 percent, the Dow could plummet to 4500."

There we have it. The economy is, and should be, run in the interest of the stock market. Moderately liberal economists from Paul Samuelson to Paul Krugman have long observed that a little inflation is essentially harmless and probably even tonic for the real economy. But inflation is poison for the stock market. Why? Because Wayne Angell's bull market has soared on the gradual disinflation of the 1980s and 1990s. The lower the rate of inflation, the higher the reasonable ratio of stock prices to corporate earnings. Reverse that cycle, and the market tumbles.

The only problem with this magnificent bull market is that it has delivered only so-so economic results for ordinary people. In the postwar boom, when the stock market turned in a far less stunning performance, average real incomes doubled in a generation. The growth rate was a robust 3.8 percent, compared to less than 2.5 percent in the 1990s. If stock ownership were broadly distributed, ordinary people might be sharing in the Wall Street boom. But despite claims of a "people's capitalism," the top 1 percent of Americans own 40 percent of the shares, and the next 5 percent own most of the rest.

It is perhaps an exaggeration to posit an inverse relation between what is good for Wall Street and what is good for Main Street. But Wall Street's own apostles come pretty close to making that case. Low inflation and moderate growth make the stock market boom. Higher growth and higher increases in wages and salaries might be inflationary. In any case, it would flatten the stock market.

Is there any other way to run an economy? Most mainstream economists agree with Angell that the Fed should resist letting the economy grow at faster than 2.5 percent, and not mainly out of solicitude for the stock market [see Alan S. Blinder, "The Speed Limit: Fact and Fancy in the Growth Debate," page 57]. But might there be an alternative economics, and an alternative politics? Evidently not. Here, conveniently situated on the very same *Wall Street Journal* editorial page for June 3, is an essay by the Republicans' favorite Democrat, Al From.

From's subject is "New vs. Old Democrats." The New Democrats of his narrative are Messrs. Clinton and Gore, as interpreted by From. What is new about them, according to From, is that they have sponsored precisely the policies that Wayne Angell applauds. In addition to making Democrats the party of fiscal discipline, they have reassured voters on Democrats' social views by embracing crime control and welfare-to-work; they have dispatched bad memories of a fractious party in thrall to special interests, notably the labor movement. "By moving his party to the 'vital center,' the President ended Democrats' long dry spell in presidential elections," writes From.

What threatens this achievement, according to From, is Dick Gephardt and economic populism. "Rep. Gephardt is attempting to reverse the transformation of the Democratic Party that President Clinton and his New Democrat allies have brought about in the 1990s," From warns. "By responding to the demands of organized labor and other powerful Democratic constituen-

cies to oppose the balanced budget and to restrict trade, Rep. Gephardt would have us revert to the old interest-group politics."

So there is neither a prudent economic alternative to the broad present course (Angell) nor a sensible political alternative (From). And the politics of Clinton's incumbency and Gore's presumed succession require a relentless emphasis on the positive (From: "The policy has yielded terrific results: more than 12 million net new jobs created in the past 4 1/2 years," and so on). Gephardt and the labor movement were bitterly criticized during the 1996 election by the White House and its pollsters for trying to rally those who felt excluded from the boom.

Therefore, as our colleague Robert Reich suggests in his recent memoir, politics—even relatively liberal politics—boils down to the twin imperatives of cutting public outlays and appeasing the Federal Reserve and Wall Street. The bipartisan premises of the budget debate (balance at all cost, no tax increases) require that there can be no serious conversation about social investment. Validation takes the form of the rising stock market and falling unemployment—never mind the job insecurity and the static wages. Actual public policy debate involves fairly trivial decisions around the margins: how much to take from Medicaid with one hand to give health coverage to poor, uninsured children with the other; whether to restore disability aid to 50,000 or 100,000 legal immigrants, half a million of whom were rendered ineligible in the 1996 welfare reform that the President signed. In this context, the occasional liberal victories are mostly defensive.

A variant of this dilemma afflicts all of the left-of-center parties throughout the West. In America, the budget crisis is more or less contrived. In the 1980s, Republicans created unsustainable deficits. Instead of reducing them to more normal levels and then moving on, Democrats, led by the White House, have played into a permanent Republican game of tax cuts followed by matching cuts in outlays. The current budget resolution, with $85 billion in net tax cuts in the first five years, and many hundreds of billions more after 2002, makes this politics permanent.

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In western Europe, the hammer is not the legacy of conservative-sponsored fiscal deficits, but the German Bundesbank and the politics of European monetary union. Europe has long had higher levels of social spending than the United States. The strategy of broadening prosperity by raising public expenditure is not an option. In Europe, economic union under the stewardship of the Bundesbank punishes the country that tries to grow faster than its neighbors. Left and right are arguing not about how much growth, but how much austerity.

Fiscally, the universal task is to rein in deficits. That means slow growth and reduced public borrowing. Voters don't like austerity, and have little appetite for tax increases to finance public spending, which are seen as just another form of belt tightening. So the strategies that served center-left parties well a generation ago are now inoperative.

Left-of-center governments have just won elections in London and Paris. But in London, as Stanley Greenberg recounts ["The Mythology of Centrism: Why Clinton and Blair Really Won," page 42], much of the Blair government's task is constitutional and political reform and the prevention of the further erosion of the British welfare state. For the most part, the Thatcher revolution has been accepted as a baseline. In Paris, Lionel Jospin's Socialists are somewhat more unreconstructed; they want a 35-hour workweek and public works to create jobs. But much of their project is also defensive—to renegotiate European monetary union on slightly less deflationary terms.

What, then, is left?

As the articles in this issue suggest, part of the answer is restoring the promise and possibility of faster economic growth. Central banks and their defenders simply cannot be above politics. Anyone who suggests that a healthy stock market requires the stagnation of wages is making a political statement. Unless we want to trade in our political democracy for a tight oligarchy of central bankers, we need to hone a real debate.

Another answer is reviving institutions of popular participation. In America that means getting big money out of politics and breathing more life into the labor movement and other movements of mass participation. In Europe, it means modernizing the institutions of a stakeholder society. For Britain, where labor relations have always been fractious, such a society must be built almost from scratch. On the continent, the last generation of social Christian and social democratic parties did a commendable job of devising institutions of social partnership. But in a climate of high unemployment, these social buffers create a new, often generational, fault line of haves and have-nots. People with good jobs and job histories—usually the middle-aged and the retired—are still members of a functioning social compact. They have decent benefits, and tolerable security. Newcomers to the job market are on the outside, looking in. No wonder so many of Europe's Generation Xers are either looking to the individualist, entrepreneurial vision of a good society, or hanging out in cafes.

A third strategy is the approach promoted inside the Clinton administration by Robert Reich, and long advocated by social democrats in northern Europe: human capital policies. Invest serious money in making workers more productive, and even the most austere central bankers will allow the unemployment rate to drop. Earnings will rise because productive employees add value. If wage subsidies and other social transfers have reached their limits, the best strategy for creating good jobs at good wages is to make young workers more attractive to hire and reward. This is no less a social outlay than an unemployment-compensation check, and a rather smarter one.

Several of Europe's smaller economies have long coupled a social compact between industry and labor with significant social investment in the quality of workers. Austria, the Netherlands, and Sweden all have significantly lower unemployment than the rest of Europe, thanks to this approach. All have trimmed, but not scrapped, their social supports and have modernized them into institutions that facilitate labor-market transitions rather than just paying for idleness.

This brings me full circle to the booming stock market. In 1965, Sir James Meade wrote a brilliant book titled *Efficiency, Equality, and the Ownership of Property*. Meade laid out three possible strategies for broadening equality: a strong labor movement, an expansive welfare state, and a "Property-Owning Dem-

cracy." An overly strong labor movement, Meade thought, would be inflationary (he was right in the British context, wrong about Nordic trade unions). A welfare state sufficiently broad to counteract the inherent inegalitarian tendencies of capitalism would require too high a tax rate. This was prescient. For Meade, the superior way to reconcile equality and efficiency was broadly diffused property wealth. He wrote:

> Extreme inequalities in the ownership of property are in my view undesirable quite apart from any inequalities of income which they may imply. A man with much property has great bargaining strength and a sense of security, independence, and freedom. . . . He can snap his fingers at those on whom he must rely for income; for he can always rely for a time on his capital. The propertyless man must continuously and without interruption acquire his income by working for an employer or by qualifying to receive it from a public authority. An unequal distribution of property means an unequal distribution of power and status even if it is prevented from causing too unequal distribution of income.

Jefferson, no statist, would have concurred. There is, of course, a conservative version of this vision: Everyone should just become an entrepreneur. The conservative vision also includes privatization of Social Security, so that everyone will get a nest egg of property wealth. It includes tax-favored IRAs and 401 (k) plans. But in the conservative blueprint, the size of the nest egg is a function of one's personal savings from earnings. Low-wage workers get to put aside a pittance; the gap between property haves and property have-nots remains.

There is also a progressive version. One concrete plan was proposed in these pages by Sam Beard ["Is There a Social Security Crisis?" January-February 1997]. A portion of payroll taxes would underwrite nest eggs, but the structure of financing would be highly redistributive. A progressive version of Meade's Property-Owning Democracy might also include universal pensions, as well as subsidized first-time home ownership, as well as profit sharing and employee-owned firms. Share-the-wealth populists in America are as old as Jefferson's system of land tenure and the Homestead acts, and as modern as Federal Housing Administration loans and employee stock ownership plans.

This is not a bad four-part program for raising both earnings and democratic engagement: faster growth, intensive investment in workers, stakeholding corporations with more avenues of participation, and broader diffusion of property wealth. But all of this requires a politics. And none of it is likely to happen if political remedy seems blocked and voting turnout, rationally, keeps dwindling.

Such a politics also requires a rekindling of what our European friends call solidarity. Voters, especially American ones, resist programs of explicit redistribution, such as Aid to Families with Dependent Children. But they are highly supportive of institutions that redistribute via inclusion, such as Medicare, Social Security, and the GI Bill. Middle-class taxpayers will support a new round of inclusive social initiatives only if they seem likely to offer broad opportunity and security for all. But this vision requires, above all, a self-confident progressive movement and not a tamer version of Thatcher and Reagan.

A cautious centrism, insisting that little can be done and offering only symbolism as a source of animation, is not likely to revive such a politics—or much of a politics at all. What will fill the vacuum is rugged individualism at best, and antipolitical hatred at worst. If the menu is limited to economics a la Angell and politics a la From, we might as well just give up the democratic pretense and let the Fed run it all.❑

Taking Stock

Washington has a curious intellectual dynamic: The less understood an idea is, the faster it spreads. On May 9, a *Wall Street Journal* op-ed by Lawrence Kudlow announced that cutting the capital gains tax would balance the budget immediately. Within days, a panelist on the PBS program *Washington Week in Review* repeated this remarkable finding while the assembled talking heads nodded sagely. Whence this windfall? Kudlow explains:

> The capitalized asset value of U.S. stocks has increased more than $3 trillion since 1994. Should only 15% of investors decide to realize their gains at the new 20% rate, then the Treasury could reap a conservatively estimated $90 billion in windfall revenues, more than enough to cover the projected deficit.

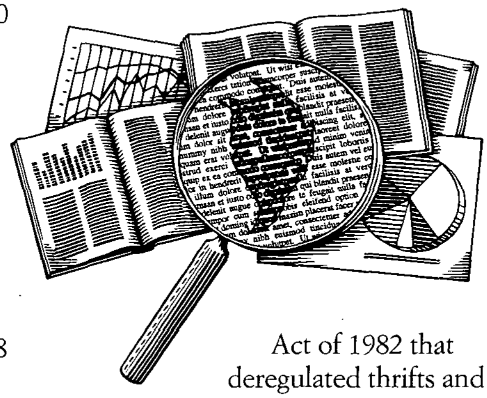
Everything in that passage is true, in the same sense that the sentence "Should only 15 percent of the foreign population voluntarily decide to turn its life savings over to the U.S. Treasury, the national debt would quickly disappear" is true. Getting people to sell their stocks more quickly raises short-term tax revenue, because capital gains aren't taxed until they're sold, and the sooner people sell the sooner the government gets the money. The House Ways and Means Committee makes a wildly optimistic assumption that lowering the capital gains tax from 28 percent to 20 percent will cause a 50 percent increase in stock sales. Kudlow assumes there would be an additional $450 billion in sales ($450 billion times 20 percent equals $90 billion in tax revenues). That would constitute a 240 percent increase. In other words, almost three and a half times more people than last year would sell their stocks next year, just so they could pay 8 percent less tax.

The main point, of course, is that even if Kudlow's prediction came true, it wouldn't solve long-run budget problems. All the extra revenue brought in by a sudden tax windfall would mean a lot less revenue in the future. You can only sell something once. Then again, if the capital gains tax cut made bondholders so grateful that they decided to forgive the national debt . . .

Legacy Gone Awry

It's almost unfair to heap more scorn on top of John F. Kennedy, Jr.'s oft-ridiculed political glossy *George*, but after opening its July issue to a Letterman-esque feature, "Oops! Top 10 Laws That Lashed Back," it's impossible not to say something. Evidently tired of being criticized for its content-lite editorial policy, *George* decided to comb through American legislative history and compile a list of ten bills that had taken "revenge on their makers and do[ne] the opposite of what was intended."

So what pieces of legislation caused enough "bitter and unforseen [sic] consequences" to make *George*'s top ten? The magazine highlights a couple of obvious choices—the Garn-St. Germain



Act of 1982 that deregulated thrifts and ushered in the savings and loan crisis, and the supply-side-inspired Economic Recovery Act of 1981 that cut taxes and increased the national debt—and makes a somewhat convincing case for some not-so-obvious ones. But when it comes to assessing New Deal and Great Society legislation, *George*'s choices are, to put it mildly, curious.

For example, the Social Security Act of 1935, which established America's greatest and most lasting universal program, is selected for the top ten on the logic that its provision creating aid for dependent children eventually grew into the recently repealed welfare program of Aid to Families with Dependent Children (AFDC). The Civil Rights Act of 1964, which outlawed segregation in public places and ensured the right of equal employment, warrants a spot on the list since the bill unwittingly instituted a system of racial preferences. And last but not least, the Voting Rights Act of 1965, which gave blacks in the South the right to vote, is picked since it weakened the Democratic Party by driving benighted southern Democrats into the welcoming arms of Republicans.

Certainly, there is room for rea-

sonable debate between liberals and conservatives over the relative merits of AFDC, racial preferences, and the Democrats' loss of the South. But for *George* to suggest that these consequences constitute "legislation gone awry," when these same pieces of legislation are responsible for a disproportionate amount of the social progress this country has achieved in the past 60 years is, to say the least, unexpected. Perhaps it demonstrates unusually muddled thinking in what is already a dumb publication, or maybe it betrays a shockingly right-wing bias in a magazine purported to be "post-partisan." Either way, it's not likely the type of legacy the previous generation of Kennedys had in mind.

GOP FECklessness

Congressional Republicans have sought $8 million for high-profile House and Senate probes of political money, but when it comes to funding the Federal Election Commission (FEC), the agency that enforces election laws, the Republicans turn downright stingy.

Budget constraints have made it increasingly difficult for the FEC to do its job: Since 1994 the agency has experienced a 30 percent increase in the number of complaints it has received and a 10 percent decrease in full-time staff. Politicians in both parties have found it politically expedient to call for a crackdown on campaign finance abuses, while financially handicapping the one agency charged with policing the system.

In the first months of 1997, FEC officials persuaded President Clinton to ask Congress to appropriate additional funds to the agency. But House leaders, after initially going along with Clinton's request and promising an extra $1.7 million for fiscal 1997, quietly reneged on the deal when FEC officials—who sought the additional funds to pay for more staff and other investigative needs—refused to go along with House Appropriations Committee Chairman Bob Livingston's stipulation that the extra money be spent on upgrading the agency's computer information systems. An Appropriations Committee spokeswoman told the *National Journal* that Livingston thought killing the additional funds was "good government management of taxpayer dollars." Or perhaps the Republicans like the control of investigations they have in Congress and don't want the FEC to have the resources to do its own properly.

With Friends Like These

Republicans in Congress have been trumpeting a series of "family-friendly" amendments to the Fair Labor Standards Act, including a proposal to allow workers to take an hour and a half of paid compensatory time off in lieu of receiving standard overtime wage rates, for every hour that they work overtime. The result, Senator John Ashcroft claims, will be greater flexibility for American families and more free time for American workers.

Sounds great—except that on closer analysis, it's clear the bill would primarily benefit businesses, often at workers' expense. Why? Because employers have a financial interest in having their workers choose comp time rather than the higher overtime rate. Nothing in Ashcroft's proposal stops businesses from assigning overtime work only to those workers who agree to choose comp time. And nothing ensures employees will be able to decide when they can take their time off.

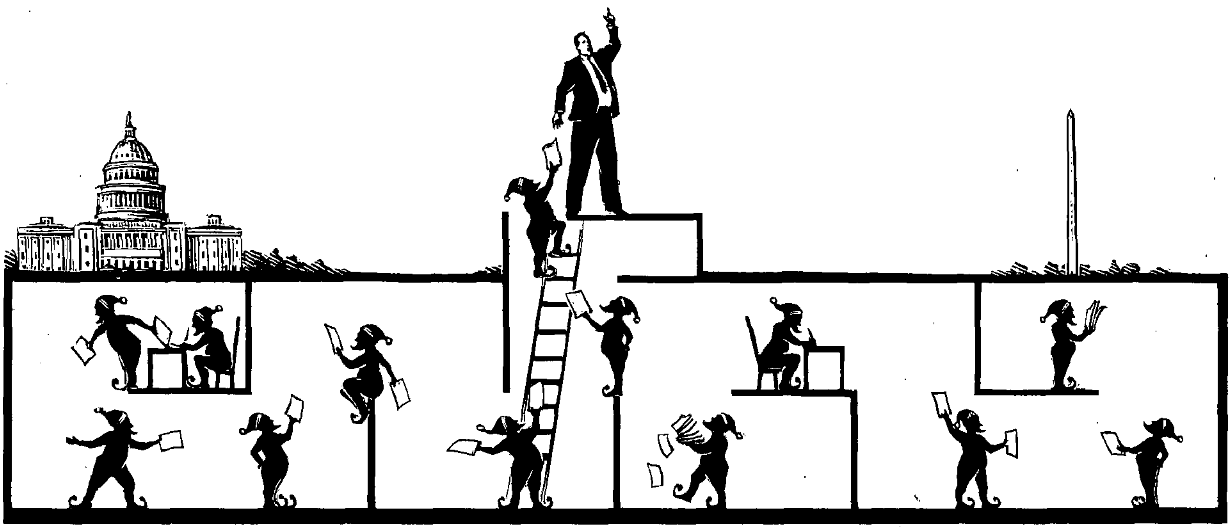
Furthermore, unlike overtime hours, hours of comp time won't be included in the total number of hours worked. A worker who takes Monday off could be forced to make up the time on Saturday, without any of the benefits of overtime, since he or she would not have met the 40-hour limit. Making the problem still worse, this would often amount to a cut in benefits and pensions, since many benefits are based in part on the total number of hours worked.

The U.S. Chamber of Commerce and the National Association of Manufacturers have been vocal in their support for the measure, but it is telling that organized labor and many family advocates have been opposed. Some workers may welcome the opportunity to take extra time off, but others depend on overtime pay to support their families—two-thirds of those who worked overtime last year earned a standard wage of less than $10. Without effective safeguards, workers won't be given a genuine choice; the result will be increasing hours (as overtime becomes cheaper for employers) and decreasing pay (as overtime compensation falls). Working families could use some friends in Congress, but longer hours at less pay isn't what they expect from them.

—Jonathan Chait, Edward Cohn, Jason Zengerle

JOHN B. JUDIS

The China Hawks



Since the end of the Cold War, the main challenge to those who favor a "constructive engagement" with China has come from human rights advocates and labor leaders. But in the last year, a new opposition voice has been heard, arguing for a return to the containment strategy used against the Soviet Union. This new strategy has very little support at the Brookings Institution or the Council on Foreign Relations, but it is well represented in the *Weekly Standard*, *Commentary*, and the *New Republic*, and in the columns of **George Will**, **William Safire**, and **A.M. Rosenthal**. Some of the loudest voices are former Cold War conservatives who were exiled from inner policy circles in the last revisionist years of the Reagan administration. These include **Michael Ledeen** (who helped broker the first arms-for-hostages deal with Iran), **Frank Gaffney** (who was deputy to Defense Department official Richard Perle), and **Robert Kagan** (former aide to State Department official Elliot Abrams).

These advocates of containment have drowned out other critics of constructive engagement. When the Senate Foreign Relations Committee met last May to consider granting most-favored-nation status to China, the committee invited Kagan rather than a representative from the AFL-CIO or Human Rights Watch/Asia to present the dissenting view. That's unfortunate—not because Kagan is inarticulate, but because the alternative he espouses is not preferable to constructive engagement. If actually adopted, it could spell disaster for the United States and China.

The advocates of containment see China as the latest in a series of twentieth-century "revisionist" powers—from Germany to Japan to the Soviet Union—threatening to impose its will upon the world. Conflict between the United States and China, containment advocates argue, is inevitable. "The Chinese leadership views the world today in much the same way Kaiser Wilhelm II did a century ago," Kagan told the Foreign Relations Committee. "So long as China remains a ruthless Communist dictatorship . . . the inevitability of conflict must inform all our thinking and planning," wrote Ledeen in the *Standard*.

Thus advocates of containment want to deny China most-favored-nation status not in order to

win specific concessions, but rather as part of a long-term strategy for, as George Will puts it, "the subversion of the Chinese regime." Withholding economic and military ties from China and creating NATO-like alliances to block China's expansion, this logic goes, will eventually force the country to abandon communism for democracy. "As was the case earlier in this century for Germany, for Japan, and for Russia, the only enduring solution to the threat posed by China is a change in the regime, in the direction of political democracy," writes Harvard professor **Arthur Waldron** in *Commentary.*

This position is based upon a failure to understand how China is different from previous "revisionist" powers and how the world itself has changed since 1945. In the first decades of the twentieth century, Wilhelmine and Nazi Germany, Czarist Russia, Britain, and Japan were each imperial powers seeking through war to alter the distribution of colonized nations. China was a victim of this imperialism. Hong Kong, for instance, was seized by the British during the Opium War, and Taiwan was taken by the Japanese in 1895. China's desire to reclaim Hong Kong, Taiwan, or the Ryukyu Islands cannot be identified with Germany's seizure of Poland or, later, the Soviet Union's domination of Eastern Europe.

Of course, China also has an imperial past, but its ambitions were confined to adjoining lands. The Chinese, like nineteenth-century Americans, regarded themselves as the citizens of a superior civilization that other countries should emulate. Except during Lin Biao's ascendancy during the Cultural Revolution, the Chinese, unlike the Soviets, did not adopt a messianic, millenarian view of themselves as leaders of world communism. And China's current communism is free of any universal pretensions. If China has an ambition, it is to restore its pre-imperial status as the great power of Asia. While this ambition may lead to conflicts with other Asian nations and with the United States, it should not be equated with the Soviet Union's or Nazi Germany's drive for world domination.

Indeed, even if China had such ambitions, the country is incapable of exerting protracted military force power beyond the Asian continent. Its military consists primarily of poorly equipped land forces. It does not really have a navy. It does have nuclear weapons, but a recent Pentagon study describes China's air force as "obsolescent" and "incapable of mounting any effective largescale and sustained air operations." China's economic power is also wildly overrated. While its coastal towns and cities have enjoyed a boom, much of the country in the west and north lacks the infrastructure and level of education even for industrialization. Much of China is very backward and poor. Its national government runs at a huge deficit, and many of its state-owned enterprises would not survive the rigors of market competition.

China can still cause enormous military problems in Asia—for instance, in disputes with Southeast Asian countries over the potentially oil-rich Spratly Islands—but that doesn't call for the kind of containment strategy the United States adopted toward the Soviet Union. Instead, it requires a regional strategy aimed at discouraging China from military adventures—the kind of limited strategy that **Walter Lippmann** proposed for the Soviet Union in 1947, but that **George Kennan**, **Dean Acheson**, and the advocates of containment adamantly opposed.

> China can still cause enormous military problems in Asia, but that doesn't call for the kind of containment strategy the United States adopted toward the Soviet Union.

A limited strategy would include a U.S. naval presence and might involve Japan in a more active military role; most important, however, it would encompass the kind of positive incentives favored by proponents of constructive engagement. These include the acknowledgment of China's legitimate territorial aims in Hong Kong, Taiwan, and the Ryukyu Islands and the invitation to China to play a significant role in regional and international organizations. This kind of nuanced approach is completely inconsistent with a strategy aimed at isolating, encircling, and subverting China.

The current containment strategy is also based on an outmoded model of world affairs. What would it mean, after all, for China today to follow the example of Wilhelmine Germany? For several thousand years, nations identified wealth and power with the acquisition of resource-rich colonies. Both world wars were precipitated by struggles to redivide the world's colonies. The Cold War itself was fought over control of Eastern Europe, Asia, the Near East, and Latin America. But the Cold War's end has concluded a process of change toward what political scientist **Richard Sklar** calls a new "postimperial" world. Countries can still go to war over access to raw materials—witness the Gulf War—but in this new world order, great economic powers no longer identify wealth and power with colonial possessions, but with the command of technology and finance; and former colonies no longer see foreign investment as an instrument of imperialism, but as the means of improving their own standard of living. A nation seeking power would not envisage occupying its neighbors but would strive to make them dependent upon its own banks and factories.

Because of its own experience of colonialism and communism, China's entrance into this new postimperial world has been delayed. China's attention is still directed at regaining its possessions—its principal arms race is not with the United States but with Taiwan. And some of China's aging leaders still speak the language of either Marxism-Leninism or older imperialism. But their words should be compared against what China has done since 1978, when Deng Xiaoping, borrowing a term from American Secretary of State John Hay, inaugurated an "open door" for foreign investment.

The United States should make sure that China continues its transition into this new postimperial order. There are two principal obstacles. One is China's political and military relations with its neighbors. The other, which neither the proponents of constructive engagement or of containment sufficiently acknowledge, is China's economic relationship with the rest of world capitalism, including the United States. While China is by no means an economic superpower, it is the world's largest repository of low-wage manufacturing labor. China's workers' wages are one-tenth those of Hong Kong, and with a huge reserve of unemployed workers, and the army and party preventing the formation of unions, wages will remain among the world's lowest for decades to come. Combine that with a mercantile strategy designed to block imports and force foreign investors to produce only for export, and you have a recipe for global economic disruption.

If China were allowed into the World Trade Organization (WTO) as a developing nation, it could fend off complaints against its trade barriers and absence of labor rights. In that position, it would threaten the standard of living of workers around the globe, and could eventually wreck the organization itself, as countries found themselves unable to use its tribunal to remove trade barriers. The United States, which has become China's market of last resort, needs to use the WTO negotiations to force dramatic changes in China's trade practices. The United States also needs to persuade other countries—Japan in particular—to help absorb China's exports. Without an outlet for their exports, China and other less advanced Asian countries might one day find themselves at sword's point. But, to date, the Clinton administration's economic policy toward China has been driven by multinational corporations and banks that see China as an outlet for investment and by proponents of constructive engagement who want to barter economic concessions for geopolitical ones.

The advocates of containment don't present an alternative to this glaring weakness of constructive engagement. Instead, they denigrate what the *New Republic* has called "economic considerations" in favor of "strategic considerations and moral considerations," as if economics were simply a matter of cost and profit and not the welfare of human beings, and as if economic security were not central to the stability of the region. The current prominence of the containment strategy skews the debate over China; it diverts policymakers from considering real dangers in order to refute imagined ones; it puts American foreign policy back onto the frozen terrain of the Cold War, where questions about trade were subordinated to the threat of war. If we want to figure out what to do about China, it will not be through conjuring up ghosts of Wilhelmine Germany or Stalin's Russia, but through filling in the dim outlines of an unfamiliar post-Cold War, postimperial future.❑

Family Trouble

BARBARA DAFOE WHITEHEAD

In a review essay that purports to include my book, *The Divorce Culture*, Arlene Skolnick ignores what the book actually says. Instead, she falsely ascribes to me things I have never written. Let me begin with some of her many errors and misrepresentations. Then I will draw on my own argument, since it reveals the weaknesses in her view of how liberals should think about family structure changes.

I have never written: "fatherlessness is the number one domestic problem facing the country because it drives all the rest." I do not point to the vulnerabilities of single-parent families as signs of their "moral failings." I do not argue for making alternatives to two-parent biological families socially unacceptable and practically difficult. I do not use "horror stories" about divorce. I do have files of touching letters from children of divorce, but I use none of this anecdotal evidence. I rely only on clearly identified historical, literary, legal, and social science evidence. I do not say that our culture has "abolished" marriage and the nuclear family. I do not call for policies that will disadvantage children. I do not treat family structure changes in a social and economic void or profess a "germ theory" of divorce. Indeed, I cite many background factors behind the steep increase in divorce rates, including postwar economic affluence; the growing opportunities for women in education and the workplace; women's greater relative economic independence and thus greater freedom to leave bad marriages; weakening social sanctions against parenthood outside of marriage; the relaxation of cultural prohibitions against divorces involving children; and rising expectations for adult emotional satisfactions within marriage. All figure in the growing fragility of marriage and the increased likelihood of marital breakdown and dissolution. I place the seedbed for the divorce revolution in the late 1950s, not the 1960s. Finally, I do not "mislead" by "repeatedly" using the phrase she attributes to me as a direct quotation: "average child of divorce."

Continuing the debate from "Family Feud," July-August 1997.

Skolnick also writes, "Many of the family researchers cited in Whitehead's *Atlantic* article [April 1993, "Dan Quayle Was Right"] protested her misuse of their data" and then says in the next sentence, as if to illustrate: "Sara McLanahan, for example, has objected to efforts to 'demonize single mothers.'" Several researchers, including three mentioned in the article—but not McLanahan—did protest, but not over misuse of their data. (The piece went through the *Atlantic*'s meticulous fact-checking process and such misuse would not have survived.) In a letter to the *Atlantic*, they contended that I "imply erroneously that most children of divorce will have lasting problems." However, in a passage that directly quotes research opinion, the article itself says the exact opposite: "while coming from a disrupted family significantly increases a young adult's risks of experiencing social, emotional or academic difficulties, it does not foreordain such difficulties. The *majority* [italics mine] of young people from disrupted families have successfully completed high school, do *not* currently display high levels of emotional distress or problem behavior and enjoy reasonable relationships with their mothers."

Moreover, Skolnick creates the impression that McLanahan has accused me of misusing her data and demonizing single mothers. I am not aware of any such accusations. Indeed, before the article was published, I read the entire passage on her work to McLanahan and made the changes she suggested. As to how we should think about single motherhood, I agree with the views expressed by McLanahan and Gary Sandefur in their book, *Growing Up with a Single Parent* (1994): "we reject the argument that people should not talk about the negative consequences of single motherhood for fear of stigmatizing single mothers and their children. While we appreciate the compassion that lies behind this position, we disagree with the bottom line. Indeed, we believe that not talking about these problems does more harm than good."

Another glaring error: Skolnick identifies me as the leader of a group of writers based at the Institute for American Values, referring six times to "Whitehead and her colleagues." I parted company with the Institute for American Values more than two years ago, and I wrote *The Divorce Culture* after I left. My work is mine alone, not the "output" of any organization.

By generating this smokescreen of falsehoods, Skolnick avoids contending with my ideas. Most scholars agree that the divorce revolution occurred as a result of the social, economic, and cultural factors I identify above. But these factors alone do not explain its single most remarkable feature: the virtual disappearance of widespread social concern over the harmful impact of divorce on children. Earlier in the century, when the divorce rate was minuscule by today's standards, people worried about the damage it did to children. Yet at the very moment that divorce began to affect a historically unprecedented one million children each and every year, this concern vanished. Why this dramatic shift?

Simply put, there was a sea change in the American conception of divorce. The society no longer defined divorce as a social or family event, with multiple stakeholders, notably the children whose interests must be represented and served. Instead, it saw divorce as an individual and psychological event with a single stakeholder, the initiating adult. Divorce also ceased to be regarded as a last-resort remedy for an irretrievably broken marriage and began to be identified with positive outcomes for adults and especially for women: greater happiness and independence; a stronger self-image; and enhanced capacity for initiative, assertiveness, and risk taking. In this conception, children were no longer viewed as stakeholders in marriage or divorce.

There was ideological consensus on this new conception. Conservatives embraced its affirmation of unfettered individualism, which gave adults the freedom to pursue their own individual interests in a socially and legally deregulated environment. Liberals were attracted to the psychological and social benefits of divorce for women. Freed from their economic and psychological dependency on marriage, women would be able to hold their own against men in the workplace and in family life.

This conception of divorce, with its disenfranchisement of children, threatens the child-saving tradition of twentieth-century liberalism. Two defining goals of the liberal project have been to secure greater rights and freedoms for women and to improve the welfare of children. In the past, these goals were compatible because liberals could assume an identity of maternal and child interests. What helped women would help their children. Consequently, if mothers were emotionally stronger and happier after divorce, presumably their children would be as well. However, the empirical evidence on the impact of divorce on children challenges this assumption. A majority of women do report improved psychological health and outlook after divorce, but their children often suffer serious economic disadvantage and emotional loss, including weaker ties to their father. Thus, the advantages of divorce for adults, especially women, are not equally or reliably shared by their children. Liberals like Skolnick try to evade this conflict by soft-pedaling the hardships of divorce for children. Thus, Skolnick argues, concerns about the harmful impact of divorce on children are exaggerated because, by one scholar's estimate, only 25 percent of children (roughly 250,000 per year for more than 25 years) suffer long-term damage. It is inconceivable that she would dismiss such a rate if it applied to unemployment or domestic violence. Her view is a remarkable and tragic retreat from the liberal tradition. Moreover,

by branding concerns over marital instability and father absence as "moral panic," she abandons one compelling argument for why we must act to reverse the decline in high school-educated male wages: It shrinks the pool of marriageable men and responsible fathers.

Skolnick is at odds with another liberal tenet. Usually it is liberals who argue that the structural organization of social, economic, and political life shapes outcomes, while it is conservatives who say that individual character and agency count. Here, it is Skolnick who says structure doesn't matter. Rather, it is the quality of relationships that determines children's outcomes. Of course, consistent love, nurture, and supervision are essential to successful child rearing, and these qualities can be found in many different family structures, from single-mother households to married-parent households to foster-parent households and even in some kinds of institutional settings—a point I make in my book. But the idea that family structure has no bearing on the quality of nurture and care giving is nonsense. Structure does matter precisely because it influences the quality and duration of parental nurture and investment. Nondisrupted two-parent households simply have a greater capacity to make higher and often longer-term investments of time and money in their children than the fast-growing alternatives: one-parent, stepparent, and foster-parent families. To say this is not to promote intolerance for other family forms—all families deserve respect. Rather, it is to make an empirical statement about the capacities of different family structures to achieve good outcomes for children.

Moreover, if structure does not matter, then the liberal crusade against structural inequalities has been a wild goose chase. Given Skolnick's logic, rather than work to change structures, liberals should work to improve the quality of relationships between rich and poor, corporate moguls and low-wage workers, Donald Trump and the homeless.

More to the point, Skolnick's is a politics of sentimentality, where the goal of securing the objective conditions for child well-being is replaced by the subjective goal of feeling good about ourselves and our families. Her politics is akin to the advertising strategy of for-profit managed health care companies: They tell us warmly how much they care as they cut back ruthlessly on care itself.

Skolnick's view also makes it impossible for liberals to make a persuasive case that all American adults have a collective public duty to all American children. A society cannot sustain an ethic of public obligation to children if it also accepts a private ethic that disenfranchises them. If parents are entitled to put their needs and self-interest before those of their own children, why should they or any other adults feel an obligation to help a stranger's child? If fathers can cut back on their private support to their own flesh and blood, why would they tax themselves to provide public supports to other people's children?

Finally, Skolnick ignores traditional liberal skepticism about the application of marketplace values to family life. Earlier in this century, progressive reformers warned that divorce was the domestic equivalent of robber-baron capitalism. In this tradition, liberals held that family relationships, like relationships in labor unions, were governed by principles of solidarity, mutual aid, and binding obligation whereas the marketplace was governed by principles of individual self-interest, short-term contract, and nonbinding relationships. Yet Skolnick rejects this view of familial relationships and uncritically accepts a popular conception of divorce that advances marketplace values. Divorce is an arena for entrepreneurship and whatever costs it creates are off-loaded onto the children who, as teenagers put it, have to "suck it up and deal." This is why divorce is embraced by libertarian conservatives. It is hard to detect much difference on divorce between Arlene Skolnick and Newt Gingrich. Both take the same position: Can't help it. Can't change it. Can't get hung up on what it does to the kids.

David Popenoe

Just when it seemed liberals were finally getting it right about the family, along comes Arlene Skolnick to prove otherwise. Her arguments set liberals back more than 30 years, to 1965, when the left made its first serious misstep in the family values debate. That was the year that President Lyndon B. Johnson, drawing on the work of Daniel Patrick Moynihan, called "the breakdown of the American family structure" the chief threat to the well-being of black Americans. Most liberals were outraged: Family structure was not

the cause of inner-city problems; poverty was. Focusing on family structure merely stigmatized and blamed the victims.

Now, it seems, we're still right where we started 30 years ago. The economy may have come a long way since then—but the family hasn't. Indeed, the structural conditions of white families today—judged in terms of rates of single parenthood and out-of-wedlock births—are about what they were for black families in 1965. Many on the left have finally come to acknowledge the family pathology—yes, pathology—of the inner-city ghetto. But when the idea is generalized to the population as a whole, liberals still don't get it. Family? they ask. What's the problem? It's the economy, stupid.

No doubt we should be doing more for the poor, more to improve the economy in every way possible. Yet it's clear that money is not the whole answer to our nation's family problem. If it is, why, in an era of unprecedented affluence, have the living conditions of children of all classes deteriorated? Why, moreover, is the distribution of family structures more or less the same in Brentwood as it is in Bedford-Stuyvesant—with many of the same social consequences in both places.

A good society depends heavily on strong families raising emotionally secure and moral children who can grow up to contribute to the commonweal. Despite Skolnick's pleadings to the contrary, the social science evidence overwhelmingly indicates that single-parent and stepparent families are flawed in a sociological sense—the children in these families are two to three times more likely to experience negative behavioral outcomes.

Sure, many non-nuclear families are successful. And there will always be children growing up without two parents who need, and should have, extra support from the community and the nation. But what kind of politics is it that denigrates support for two-parent families as an exercise in nostalgia?

Arlene Skolnick's main message is this: "Get used to it." Accept that most children will not be growing up with their two parents, and make the best of it. Do we take a get-used-to-it position on racial inequality, environmental degradation, severe poverty, or the campaign finance system?

It defies credulity that seeking to curtail the sky-high divorce rate (close to 50 percent), the non-marital birth rate (now a third of all births), and the absence of fathers from the home (now more than a third of biological fathers) could be considered illiberal or unprogressive. These are tragedies for children, and for the nation.

They are also avoidable. Nobody is calling for the end of divorce, the end of sex, or for rescinding the gains that women have made in recent decades. But we should push for later marriages, for sound marriage preparation and marital enrichment programs, and for the end of teen pregnancies. We should extend parental leave and remove marriage penalties from the tax code. And we must get beyond the idea that fostering married, two-parent families is somehow "castigating parents in the 'wrong' family forms."

Does the left sincerely want political credibility and a national following? If so, I submit that the path put forth by Arlene Skolnick goes in precisely the wrong direction. Her family platform may appeal to the academic left, but as a way to appeal to the American electorate it is dead wrong. More important, it does not address what children really need.

Arlene Skolnick Responds

There's a surreal, Alice-in-Wonderland quality to Barbara Whitehead's response to my review. First she accuses me of misquoting her, which is impossible because I never actually quoted her in the article. The sentences she cites as being attributed to her appeared in a paragraph summarizing the general arguments advanced by those currently or previously affiliated with the Institute for American Values.

Later, Whitehead states that in order to "soft-pedal" the effects of divorce on children, I cite a scholar who estimates that "only 25 percent" of children suffer long-term damage. "It is inconceivable," Whitehead writes, "that she [that is, me] would dismiss such a rate if it applied to unemployment or domestic violence."

I searched in vain for that reference in my original article—because it wasn't there. Whitehead was referring to a comment made by Mavis Hetherington, which I quoted in my reply to David Blankenhorn and Maggie Gallagher in the July-August issue of *TAP*. A small point, perhaps, but indicative of a certain carelessness. Whitehead's next error, however, is more serious. Hetherington

states that while between 20 and 25 percent of children from divorced families have problems, compared to 10 percent in intact ones, it means that between 75 and 80 percent are not having problems. But where Hetherington mentions "problems" Whitehead misquotes her as speaking of "long-term damage."

Reading parts of Whitehead's polemic, however, I lost sight of what the argument is all about. She states that she does not think that fatherlessness is the major domestic problem facing the country; that she does not think that single-parent families reflect the moral failings of the adults involved; and that she agrees that the majority of young people from disrupted families do not suffer academically or emotionally. Furthermore, she says, she does not favor policies that stigmatize single-parent families or make their lives harder and she is not in favor of policies that disadvantage children—by which, I assume, she means she opposes the recently enacted welfare bill.

In the second half of her response, however, Whitehead does a complete about-face. She equates divorce with "robber-baron capitalism," claiming that it tramples on nonmarket values like solidarity and obligation, and inflicts all the costs and damages on children. Whitehead argues that by selfishly putting their own needs and self-interest ahead of their children, parents who divorce thereby undermine any sense of public obligation to children.

Curiouser still is the logic of Whitehead's discussion of "structure." It is true that sociologists describe the parental make-up of a household as a "family structure," and that they also speak of "social structure" in describing the broader arrangements (such as the class system) of a particular society. Somehow, Whitehead imagines this to mean that whatever one says about the number of parents in the home determines what one can say about large-scale social structures—that whatever one says about family structure must apply equally and in the same way to whatever one says about larger structures. "If structure does not matter," she writes, "then the liberal crusade against structural inequalities has been a wild goose chase." Aside from pointing out that I never wrote that family structure doesn't matter, there is little one can say in response to such absurd reasoning.

> The children whose family structure does not conform to the idealized standard of two non-divorced parents will always need society's concern, regard, and respect.

David Popenoe takes a moderate tone in part of his response: "Nobody," he writes, "is calling for the end of divorce, the end of sex, or for rescinding the enormous gains that women have made in recent decades." Yet Popenoe, like Blankenhorn and Gallagher, prefers to frame the argument in stark black-and-white terms, when the reality is far more subtle.

There are indeed lessons in the history that Popenoe recounts, but they are not what he thinks they are. The controversial Moynihan report that Popenoe refers to, famous for its description of the black family as "a tangle of pathology," was intended more to spur an assault on poverty than to criticize family composition. As Moynihan explained in a 1967 *Commentary* article, he introduced the topic of family structure in an effort to arouse public attention and to win the support of conservatives who would otherwise have opposed federal programs to provide full employment and guaranteed family incomes.

The notion that poverty and unemployment can lead to family instability and socially destructive behavior was neither novel nor necessarily conservative. But the mixture of morality, pathology, race, and economics turned out to be explosive. In the resulting uproar, both left and right focused on the theme of family pathology—and Moynihan's economic message was lost. Both left and right misunderstood Moynihan to be blaming the poor for their own difficulties. Indeed, contrary to Popenoe's version of events, conservatives won, succeeding over time in shifting the

focus from poverty and economic dislocation to the behavior of the poor.

Since 1965, two major developments have had a profound impact on families. One was the shift at the end of the postwar boom to a lean-and-mean postindustrial economy that stripped family-sustaining career opportunities from many blacks and noncollege-educated adults of all demographic groups. Young adults in the family-forming stage of life have been hit especially hard by an insecure and uncertain job market. Popenoe may not be aware of it, but marriage has always been a matter of both love and money—something a man had to be able to "afford." This is still true today, when a man is expected to help cook the bacon as well as bring it home. Further, there is a literature reaching back to the Great Depression showing that economic conditions play a large role not only in the decision to marry, but in the quality of marital life. In recent years, as Frank Furstenberg has pointed out in *American Demographics*, marriage has become a "luxury item," something that most low-income people would prefer, but find beyond their reach.

Of course, economics is not the whole story. The other major shift was a revolution in women's roles and in middle-class attitudes toward them. The increasing economic independence of women has made divorce and even out-of-wedlock childbearing—a la Murphy Brown—socially permissible, not only among outspoken feminists, but also, surveys show, more generally. But it is impossible to debate seriously someone like Popenoe who equates stepparenting with teenage pregnancy, and calls the life conditions of children in Brentwood and Bed-Stuy comparably "deteriorated."

Popenoe's proposals for premarital counseling and marital enrichment programs make sense. Still, anyone with common sense and a modicum of experience realizes that in this day and age, there will always be children whose family structure does not conform to the idealized standard of two nondivorced parents. Those children need society's concern, regard, and respect. The narrow and fundamentally corrosive vision of Popenoe and his colleagues will contribute little to the well-being of children across the breadth of American society.❑

Liberal Incumbency

To the Editors:

Let us lend some empirical evidence to the debate (pitting liberals Robert Borosage and Stanley Greenberg against moderates Will Marshall and Mark Penn) that appeared in "Why Did Clinton Win?" [March-April 1997]. Is there any evidence for Penn's contention that, consistent with his explanation of Clinton's victory, the Democrats did not gain a majority in the House because they "failed to join Clinton in the center"? Our analysis of the last two House elections indicates little support for Penn and Marshall's argument, and rather is consistent with Borosage and Greenberg.

In 1994, when voters decisively rejected Democrats, moderate incumbents, not liberal ones, were more likely to lose. Based on ratings by the American Conservative Union, the American Democratic Association, and the *National Journal*, we correlated incumbents' political ideology with election outcomes, and found that whereas 25 percent of moderate incumbents—a whopping number—lost their elections, liberals lost only 8 percent of theirs. And in the marginal districts, where victory supposedly requires a move to the middle, the gap between moderates and liberals voted out of office increased from 17 points to 27 points.

Too few Democratic incumbents lost in 1996 to draw any sweeping conclusions. As in 1994, however, liberals won a higher percentage of the vote than did their more moderate colleagues. Over the last two elections, liberal Democrat incumbents have won 95 percent of their election efforts—hardly a rejection of liberalism. (As an aside, we should note that results for Republicans mirrored those for Democrats, though less decisively: In both elections, conservative incumbents did better than their more moderate party colleagues in victory percentage, vote percentage, and marginal district success.) Moderation in all things does not seem wise in politics, at least when running for the House. Our findings have since been verified by several other related analyses.

Though our results do not speak directly to the presidential election, we feel the political mood of the country is better judged by hundreds of races than by one.

Neil Wollman
Abigail A. Fuller
Manchester College
North Manchester, Indiana

Neil Wollman is a professor of psychology. Abigail Fuller is an assistant professor of sociology and social work.

Define Your Terms

To the Editors:

Lawrence Mishel's article "Capital's Gain" [July-August 1997] makes its case based on various versions of two statistical measures, "labor's share of income" and "return to capital." To readers who have strong quantitative and logical skills, but who are not experts on the definitions of these economic statistics, these numbers each have so many possible definitions that a rise or fall in these numbers over time demonstrates nothing at all.

For example, what does "labor's share of income" mean? Is it income in current dollars? If so, the true meaning of this statistic will vary as inflation changes. The article did address the important fact that government expenditures count in labor's share, but more complete definitional information would have clarified whether the changes in various values demonstrate a true shift from labor to capital.

Similarly, lacking a definition for "return to capital," I wonder what an increase in this means. Could it be that the high return to capital nowadays is due to a temporary bubble in the price of corporate stock, or does it reflect a more fundamental shift? A sharp, abridged definition is needed to convince readers that you are not merely sloppily tossing about meaningless statistics in a fashion that the guys at *National Review* could mirror image.

Norman A. Spier
Norwalk, Connecticut

Lawrence Mishel Responds

Let me reassure Mr. Spier that no statistics were sloppily tossed around in "Capital Gains." All of the U.S. data referred to are available from me and are computed from data produced by standard government sources.

My article emphasized that both the "return to capital" and "capital's share of income" have grown during the current recovery. To restate more clearly, the return to capital is equal to the total of profits and interest income per dollar of assets. Capital's share of income has the same numerator as the return to capital (corporate profits and interest income) but has a denominator of gross domestic income (the sum of capital income and employee compensation) in the corporate business sector. My figures for pre-tax profits and net interest

income are from the National Income and Product Accounts. My measure of assets is taken from Federal Reserve Board data on the value of land, structures, equipment, and inventory.

Chilean Social Security

To the Editors:

I completely agree with Stephen J. Kay when, in his article, "Privatizing Social Security in South America" [July-August 1997], he concludes that full privatization of Chile's social security program in the early 1980s and the subsequent partial privatization of such programs in other Latin American countries are not good arguments for doing this to our Social Security program. As Kay well points out, conditions in these countries and the United States are quite different, especially with regard to the functioning and the financing of the existing social security program. However, Kay could have made his argument even stronger. He points out the huge transition cost for continuing to pay benefits to those already retired, but he fails to mention the cost of the prior-service credits granted to workers who transferred from the old system to the new one (payable in a lump sum when the worker retires). Equally important, he does not mention the cost to the government of guaranteeing a rather high minimum pension; this is socially desirable (and contradicts his statement that the program "provides little progressive redistribution of income"), but is quite costly and continues forever. Where will the government get the funds to finance these huge ongoing costs? Initially Chile had large government surpluses, due to the privatization of many industries that the socialist government of the 1970s had nationalized. But in the future, Chile may well have financing problems meeting these ongoing costs.

There are some factual errors in the article. It is stated that "only a little over half of Chilean workers make regular social security contributions." The correct figure is about 80 percent. His figure incorrectly compares current contributors with past contributors, some of whom may not be at work during the current period. However, many low-paid workers contribute much less than required, since they still get credit for coverage toward the minimum pension; the proper contribution would not do them any good because the minimum pension would still apply.

Anyone interested in an extensive analysis of the Chilean program and its applicability to the United States might read my paper "Chile's Social Security Reform, After Ten Years," *Benefits Quarterly* (Third Quarter 1992 and First Quarter 1993).

Robert J. Myers
Silver Spring, Maryland

Robert Myers served as Chief Actuary of the Social Security Administration from 1947 to 1970 and as Deputy Commissioner of Social Security from 1981 to 1982.

Stephen J. Kay responds

Robert J. Myers points out a serious omission my part. The sale of state-owned firms did contribute to financing social security privatization (just as the sale of the state-owned YPF oil company is helping to fund Argentina's social security privatization). But Chile's private system seeks to avoid redistribution from high- to low-income workers. Pensions will ultimately depend upon how much capital individuals accumulate. Subsidies for the minimum pension only kick in for workers who contribute for 20 years but do not earn enough to qualify for the minimum pension. At that point they are eligible for government assistance that would raise their benefits to the level of the minimum pension. So rather than having a universal program with a redistributional bias that favors all low-income workers, as in the United States, Chilean subsidies help only a specific subset of qualifying low-income workers. This is not merely a technical issue. It reflects conflicting views about whether social security should redistribute income or rely on residual programs with targeted payments.

Contribution evasion is difficult to measure. One way is to compare the number of affiliates to the number of contributors in a given pay period. This method does not account for those who have left the labor force or aren't employed that particular month. The fact that 43 percent of affiliates did not contribute in June 1995 does tell us that evasion is a serious problem.The numbers are similar for the much younger Argentine and Peruvian private systems (48.5 percent and 42 percent respectively). Note also that these figures on nonpayment only include workers affiliated with private plans. Workers in the informal sector are by definition outside the system, and since self-employed workers are not required to belong to private pension plans, very few do (a disproportionately tiny 2.4 percent of all contributors in Chile in June of 1995 were self-employed).

The American Prospect welcomes correspondence. Brief letters are preferred and stand a better chance of being published. Letters must include the writer's name, address, and telephone number, and may be edited for length. Send letters to P.O. Box 383080, Cambridge, MA 02238, or via e-mail to tap@epn.org.

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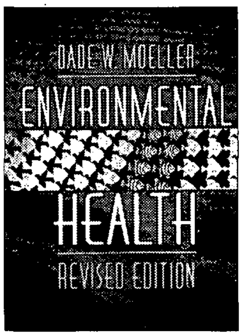

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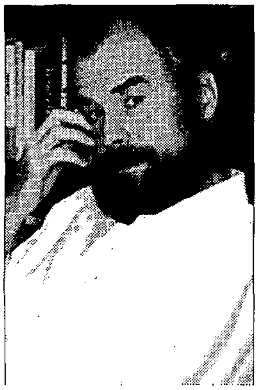

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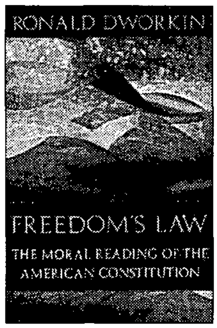

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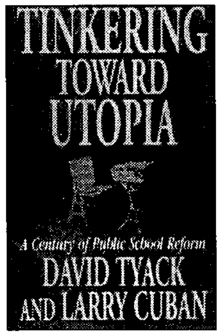

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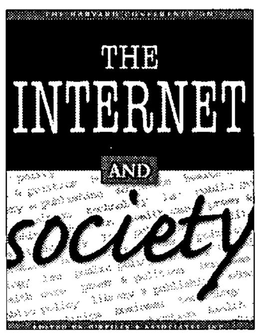

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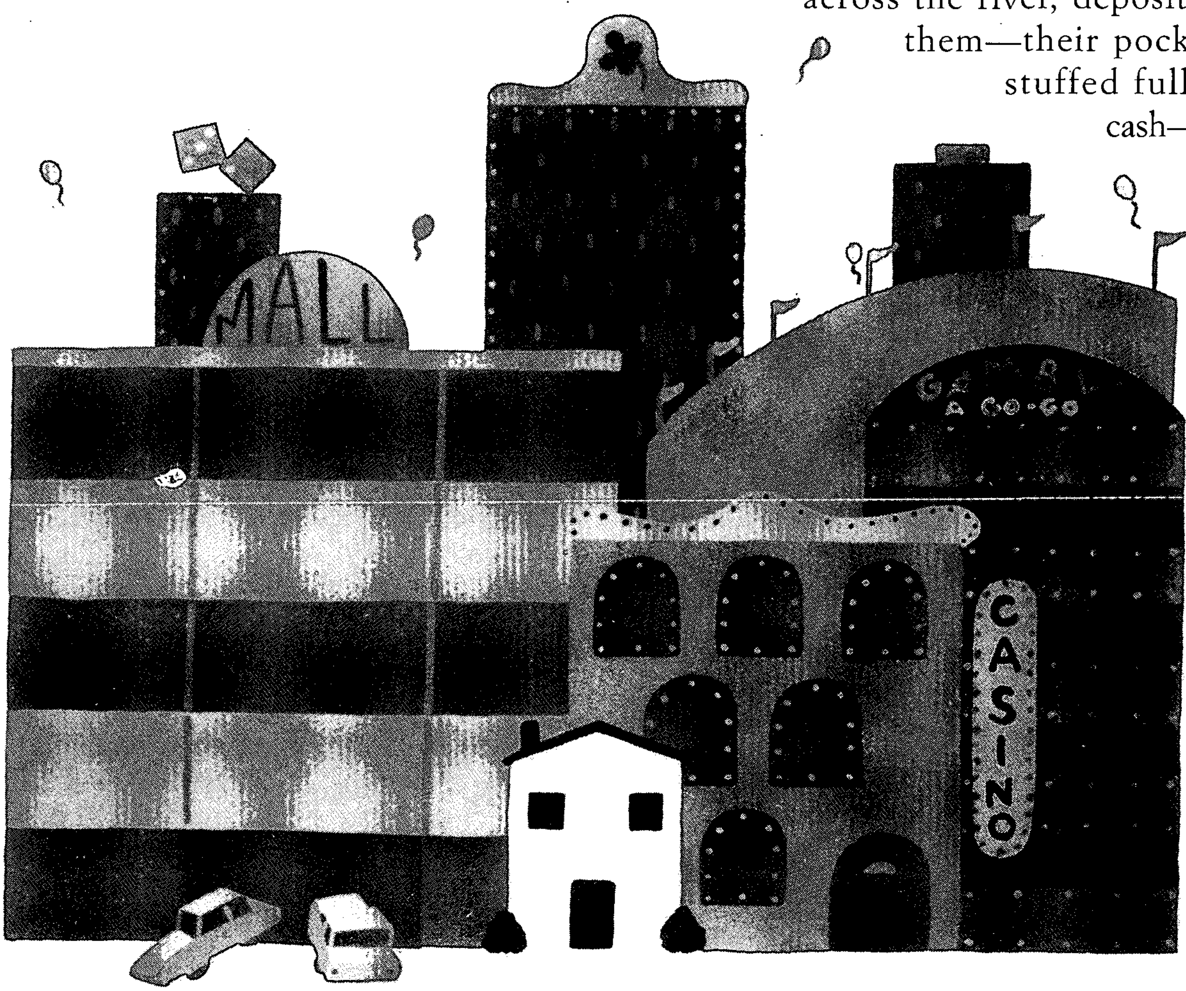
THE NEW URBAN GAMBLE

BY DAVID BARRINGER

When it comes to abject poverty, few cities rival East St. Louis, Illinois. Of the approximately 40,000 residents there, 98 percent of whom are black, roughly half qualify for public assistance. Forty-four percent of the population lives below the poverty line, and per capita income is $6,400—the worst in the state.

Four years ago East St. Louis officials pinned their hopes for urban renewal on a casino riverboat, following the lead of several other cities along the Mississippi River. Today that establishment, the Casino Queen, is booming: The boat takes in some $250 million a year, of which the city claims $6 million in taxes. Every night, Metrolink commuter trains carry thousands of patrons from the wealthy, predominantly white communities across the river, depositing them—their pockets stuffed full of cash—at

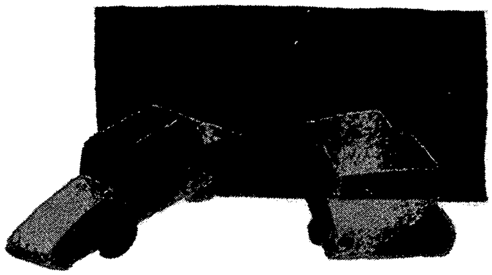


the casino's entrance. What could be better for a depressed inner city so starved for capital?

A lot, actually. The passengers on the commuter trains bypass East St. Louis itself, and it turns out that prosperity has bypassed the city as well. Both figuratively and literally, the casino is its own world. A tall security fence with two watchtowers separates the boat from the city. Guards patrol the perimeter. The official unemployment rate of 12 percent—also the worst in the state—hasn't budged since the casino arrived, even though the national rate has been steadily declining for several years. And many of the workers from East St. Louis who have managed to gain employment at the casino move to better neighborhoods when they earn enough money—which is good for those casino employees who can escape the inner city, but doesn't do much for the residents who remain in the area.

A similar fate may await Chattanooga and Detroit, Miami and Las Vegas, and several other cities that, like East St. Louis, have spent millions of dollars subsidizing privately operated entertainment attractions. The nature of the attractions varies from city to city—some places it's casinos, some places it's stadiums, some places it's both—but all are designed with the same basic goal in mind: turning cities into oversized carnivals that will lure visitors from the suburbs and beyond, thus recapturing the wealth that began seeping out years ago.

East St. Louis has pinned its hopes for urban renewal on a casino riverboat.



For sure, these glitzy projects can inspire the weary. Last year no less a symbol of urban despair than Detroit approved not just a dual stadium complex but three casinos as well—a sign, local leaders said, that Detroit was finally making a comeback. Yet cities like Detroit may be in for an unpleasant surprise when they discover that the carnival city model requires constant and expensive reinvention just to remain competitive and, thus, economically viable. Although local governments try to disguise public funding for these projects as taxes on tourists or special bond measures, inevitably money spent on these carnival attractions is money not spent on other, more worthy public investments. The economic stimulus of carnival city projects is ambiguous at best; when the construction is finished, inner-city residents could end up as impoverished as before—too poor to afford the price of admission to attractions, let alone the price of escape to the suburbs.

Reinventing the Roulette Wheel

In the 1980s, U.S. cities spent about $750 million on sports arenas. Since 1992, the country has spent more than $1 billion on arenas, and more than $7 billion is earmarked for future construction. In Baltimore, $210 million of public funds built the Orioles a new Camden Yards stadium. In 1990, without a professional team, St. Petersburg, Florida, boldly built itself the $138-million ThunderDome, a dowry that for years failed to attract suitors. And when the White Sox threatened to flee Chicago for St. Petersburg, Chicago met the team owner's demand: a new $185-million Comiskey Park across from the old one.

City Prospects

It has long been a paradox: deteriorating central cities even in growing metropolitan regions. In this issue, we begin a series on cities with two articles that question the conventional wisdom on what are assumed to be the bright and dark sides of the urban landscape: new stadiums and casinos conceived as attractions for new business, and public housing projects widely thought ripe for demolition. *In coming issues*: the changing geography, architecture, and politics of the American city.

Economists who have studied such programs say that subsidized stadiums are almost always profitable for team owners—and almost never for the cities [see "Skyboxed In," below]. In response to the crescendo of criticism, stadium project boosters now pull the camera away from a close-up and move it back—way back—until it captures the pleasing panorama of consequences of each new arena: a burger joint here, a T-shirt shop there. Boosters justify stadiums in terms of their power to catalyze area business, which benefits the city with increased tax revenue. Without the arenas, boosters say, wealthy suburbanites might not return to the cities at all.

This sounds plausible, but the logic doesn't hold up. Private business also demands public subsidy. In the end, the increased tax revenue is unlikely to recoup the city's stadium investment and will most likely go to cover the costs of subsidies for future development gambles that accompany the stadium.

Skyboxed In

BY AMY D. BURKE

In 1995, the NFL's Cleveland Browns abandoned Ohio for greener pastures in Maryland, illustrating a basic fact about professional sports today: Money talks and teams walk.

Browns owner Arthur Modell moved his team to Baltimore when the city offered him a stadium deal—complete with free rent, public financing, and revenues from concession sales—that he could not refuse. Thus the Browns are now the Baltimore Ravens while the city of Cleveland, bereft of a football team, has pledged to spend precious municipal dollars to construct an expensive new stadium in the hopes of being awarded a new Browns team when the NFL expands.

In the transformation of the Browns into the Ravens lies a basic question: Are wealthy team owners holding cities hostage by demanding—and often receiving—huge public subsidies for the construction of posh stadiums whose economic benefits accrue mainly to players and to the owners themselves? Or as the owners would have it, do the direct and indirect benefits to the surrounding community of subsidizing a professional sports stadium more than justify its costs?

"There are huge benefits both emotionally and economically" to building a stadium for the Ravens in Baltimore, explains John Moag, chairman of the Maryland Stadium Authority. Anyone who has lived in a city where a major sports team was competing for a championship can attest to the contribution to civic pride a stadium makes. More tangibly, new jobs and increased consumer spending provide real economic benefits to communities that build stadiums or arenas.

According to Rodney Fort, a professor of economics at Washington State University, "hundreds of thousands of people who never go to a game still get benefits," through job creation, tax revenues, and fan-driven commercial prosperity. Fort points out that the willingness of fans to pay voluntarily for major-league-sports tickets, along with the indirect economic benefits a local sports team can produce, do justify some city spending on stadiums.

But Andrew Zimbalist, an economist at Smith College, disagrees. The overall economic impact of a sports stadium or arena is "very close to zero," he says; publicly financed sports complexes are therefore decidedly not in the best interest of already financially strapped municipalities. For a stadium to have a positive effect on a local economy, it would have to increase the overall amount of spending on leisure activities. But because the amount of time and money that people have to spend on such activities is inherently limited, it is very difficult to prove that the addition of a professional sports team to a city community does anything more than shift leisure spending from one area to another. Stadium deals, in Zimbalist's view, often do more to drain communities' public resources than to spur new economic activity.

Moreover, many of the stadium's direct benefits, such as the high salaries paid to players and managers, flow out of the local economy. "Sports teams fundamentally employ the players and a few people in the front office. Everyone else who is employed is working part-time, low-wage jobs," says Zimbalist. Thus public financing for stadiums amounts to "doing an income transfer from people who pay sales taxes," mainly those in the middle- and

The Texas Rangers' Arlington Ballpark, for example, has a baseball museum, a Walk of Fame, and a private restaurant—and now a Six Flags water park is being built next door. Jacobs Field, in Cleveland, has a museum, a children's play area, and a restaurant overlooking the diamond. Coors Field, in Denver, has the Sand Lot Brewery next to its pedestrian plaza and children's play area.

Recently some cities have asked team owners to increase the ante, insisting that stadium projects be true public-private partnerships. In Detroit, for example, taxpayer money accounts for just 50 percent of the stadiums' construction cost, much less than the national average of 80 to 100 percent. To help fund the $505-million dual-stadium complex, voters approved a 1 percent tax on hotels and a 2 percent tax on car rentals, which should generate $5.5 million a year to support $80 million in bonds. The state is chipping in with $55 million of Indian-casino revenue, the city's Downtown Development

lower-income brackets, to the owners and players, who then respend much of their huge salaries in other states.

Supporters of municipal stadium financing observe that the total dollar value of each citizen's taxes that goes to stadium building is very small—smaller by far than the amount many fans willingly pay in the form of tickets and concessions. But James Quirk, a retired professor of economics at the California Institute of Technology, points out that much of the burden falls on people who have no interest in sports or who would not willingly spend money on a sports complex—or on the increased local taxes or hotel, rental car, and parking fees that localities levy to raise funds for the project. And it's not just locals who must foot the bill: A change made under the Tax Reform Act of 1986 inadvertently fueled the stadium-building trend by facilitating the use of federally tax-exempt bonds in arena construction. This means that the costs of building a stadium in Baltimore are diffused throughout the country.

Why is the demand for new stadiums so high? One reason, of course, is that owners want new stadiums with a greater number of hugely profitable corporate luxury skyboxes, and will threaten to move their teams if cities do not build them. But the real problem is that professional sports leagues maintain almost exclusive control over expansion decisions. This means that the leagues can reject a city's application for a team if they believe a city's stadium or arena is not new or fancy enough—new or fancy enough, that is, to produce big revenues for league coffers. Thus if a city wants a team, it has to raise money to buy the team a spiffy, heavily skyboxed home. "Cities are forced to make decisions that really aren't financially prudent," says Robert Baade, an economist at Lake Forest College.

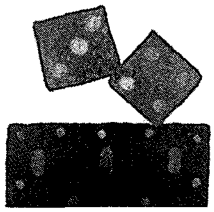
The solution may be to curtail the leagues' monopolistic control over which cities get awarded teams. For example, if any city that wanted a new team got one, leagues would lose their bargaining power. Baade suggests expanding both major and minor leagues to provide teams to all interested cities to prevent damaging bidding wars. Without more leverage for cities, however, teams will continue to demand outrageous subsidies. "There's an artificial scarcity of teams maintained [by the leagues] on purpose, for just these reasons," Fort explains.

One way league monopolies might be rolled back is through federal legislation. In January, New York Senator Daniel Patrick Moynihan introduced legislation to end the use of federally tax-exempt bonds for stadium financing. "Using their monopoly power, owners threaten to move, forcing bidding wars among cities. End result: new, tax-subsidized stadiums with fancy amenities and sweetheart lease deals."

While passage of Moynihan's bill might be a step in the right direction, its prospects are dim because many team owners have close relationships with legislators. Public support for teams remains very high and vocal. When a team leaves a city, residents and fans tend to see this as an abdication of civic responsibility on the part of city and local government. Thus local officials remain focused on short-term remedies such as stadium building to keep their teams from migrating, and can't concentrate on fixing the system. But until changes are made or public support for teams dries up, the leagues will likely remain in the driver's seat, leaving cities little choice but to accept owners' demands or wave good-bye to the home team. ❑

Authority with $85 million, and the two team owners will raise the final $285 million.

Still, while the public investment is less, the threat of team defection remains, as Oakland, Los Angeles, Baltimore, and St. Louis know all too well. Since the Lions left Detroit once already, increased public subsidy—better leasing deals, for instance—may be needed in the future just to keep the team in the city. Now and then, sympathetic experts suggest reducing taxes on team owners to prevent rival cities from luring teams away with public subsidy. But giving team owners even more money becomes a never-ending game: A decade ago South Florida, known for its lax tax requirements, hurriedly built an arena to lure hockey and basketball teams. The teams came but found the otherwise plush arena wanting because it didn't have enough luxury skyboxes. Now each team is getting a new, publicly financed arena of its own, and local officials are debating whether to turn the "old" Miami Arena into a giant flea market—even as they pay off millions in leftover construction debt.



The carnival city model requires constant and expensive reinvention to remain competitive.

On the surface, casinos might seem like a better gamble. If nothing else, they seem to guarantee a boost in tax revenue: When Gary, Indiana, imposed a 5 percent tax on its two casino riverboats, it generated $5.9 million in state revenues in just the first four months—and 5 percent of all casino winnings go direct to the city of Gary. Revenue from the Casino Queen in East St. Louis helped pay for an improved police force in the area. Community gifts are another benefit. Don Barden, owner of the Majestic Star riverboat in Gary, gave cash donations to the city for police cars and to the schools for computers and scholarships. In Detroit, Barden donated $100,000 to the Museum of African-American History, in an apparent effort to rouse community support for his bid for a license.

But with gambling comes crime and corruption. Casino owners and government officials often have trouble avoiding the slip from the virtue of gift-giving to the vice of graft-grabbing. According to newspaper reports, when casinos came to New Orleans, city council members accepted Hawaiian trips from a casino contractor; other city officials hid gifts in a not-for-profit organization; a casino operator paid $250,000 to a law firm with ties to the mayor; and a construction manager, hired by the city to monitor its interests, was paid $580,000 a year for three years by the casino.

To its credit, Detroit, which will be the largest urban area with casinos, is opting for strong ethics rules to guard against corruption. To ensure that the casinos take the city seriously, Detroit is also insisting on several mandates on the casino licensees: They must attach a 1,000-room hotel, take a Vegas partner, and spend at least $800 million on the project.

But all of this begs another question: How many more casinos can regional economies actually support? Casino owners are expected to continue their expansion through the year 2000, but with Americans' gambling losses quadrupling since 1986, many analysts doubt the industry can sustain its growth. Toward the end of last year, the stock of Trump Hotel and Casino Resorts fell two-thirds while the stocks of riverboat-gambling companies fell by half. The Stratosphere, a $550-million casino tower, failed miserably at a poor location in Vegas. Only the major gambling outfits are doing well; MGM Grand Incorporated tripled its profits in the first half of last year. The little guys, meanwhile, are sinking into debt, or cashing out.

Part of the problem is market saturation, which the carnival city model is likely to exacerbate. To manage the downsides of casinos—more crime, reduced spending power of residents, restaurants squeezed out by cheap or free casino eats—a city must be prepared to launch a public-relations campaign to bring in tourists. Casinos, if left to prey only on locals, will infect and cripple the host city. Thus, the casino riverboat in Council Bluffs, Iowa, targets tourists from Omaha, Nebraska. Las Vegas draws a large southern-California crowd. Not surprisingly, the competition has become fierce: When casinos in Gary, Indiana, opened, the revenues at casinos in nearby Joliet, Illinois, dropped 32 per-

cent. Detroit's casinos are designed, in part, to recapture the money of its hometown gamblers who cross the Detroit River to drop millions at the casinos in Windsor, Ontario.

But when does the game end? In 1992, Chattanooga christened a $45-million aquarium. Attracting one million visitors a year, it spawned other entertainment and retail businesses, like the Creative Discovery Museum and an Imax Theatre, and its renovated riverfront has become a tourist destination. But now tourism has levelled off, and civic leaders are beginning to appreciate the burden of being a tourist town. Inherent in the carnival city model is the need for perpetual upgrading: To keep tourists coming back, the city must constantly reinvent itself. Not only does this cost money—it taxes the imagination.

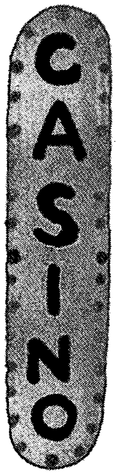
Las Vegas has been doing just that. To the gamblers who knew Sin City a decade or two ago, the modern Las Vegas is surely unrecognizable. Setting the curve for the rest of the country's would-be carnival cities, Vegas has become a city of mega-complexes and super-casinos. In 1989, casino mogul Steve Wynn opened his Mirage resort and adorned it with a waterfall and volcano, an indoor lagoon, a tropical rain forest, caged white tigers in the Secret Garden of Siegfried & Roy, a dolphin tank, and a 20,000-gallon shark aquarium. Mirage's success inspired other casinos. The MGM Grand Hotel and Casino has a 5,000-room hotel and a 33-acre theme park. The recently opened New York New York Hotel and Casino features a roller coaster that weaves through a Manhattan skyline. One casino hotel under construction is housed in a giant glass pyramid guarded by a sphinx.

Despite the shocking glitz of the architecture of ostentation, the crisis for civic leaders is that when cities build more and more carnival attractions, they start to look alike. The high-speed trains being constructed to link cities like Detroit and Chicago will make travel easier, but the similar offerings will make travel less compelling. The pressure on a city to distinguish itself will drive future development toward Vegas extremes, and those too will be doomed to lose the interest of tourists increasingly inured to the outrageous.

THE CARNIVAL CON

Of course, to bring in tourists—which for many cities means whites not just from out of

state but from their own middle-class suburbs—cities are finding that they must address tourist fears, which are partly justified by crime and partly exaggerated by race and class anxieties about minorities and the dangerous poor. Polling more than 600 voters from three counties, the *Detroit Free Press* found the number one need of potential casino-goers to be safety. Following the casino task force to Vegas, its reporters found some tourists who said they would come to Detroit only if there were attractions in addition to casinos—and others who admitted Detroit's crime-ridden image would keep them away completely.



Casinos won't spawn urban redevelopment unless they pump money into surrounding neighborhoods.

But this reveals the other basic tension in the carnival city model. Casinos won't spawn urban redevelopment unless they pump money into businesses in surrounding neighborhoods. Yet given the existing fear of crime in these areas, civic leaders and establishments alike will be tempted to appease the prevailing fears with the construction of security gates and watchtowers and the installation of surveillance cameras and armed guards—similar to the scene back in East St. Louis. This leaves us with disappointing images of an urban future: segregated, shameful, and potentially volatile. Opera houses, stadiums, casinos, theme parks—all appear to be commercial paeans to a white culture strategically gated within a black city. What is safe may come to be defined racially—that is, whites with pass cards, blacks without. That perception, too, will likely be strong among the urban community, such that black city residents will feel slighted and shut out from what was supposed to have been their saving grace, rejected by those who had promised to save them.

As cities race to build the next upscale attraction, the best assurances of civic leaders will not be enough to prevent many from being written out of the carnival city story. Initially, even the most fortunate city denizens will be left, at best, to operate a few rides and sweep up after the elephants. Job creation is a systemic problem, not easily solved: Even Detroit's empowerment zone, with $100 million at its disposal, has managed to create only 2,750 jobs for a zone population of more than 100,000, 30 percent of whom are unemployed.

Undaunted but cognizant of some of the obstacles, civic leaders are nevertheless trying to summon community involvement; this is something most city bureaucracies are very bad at, especially when they are busy courting pro sports teams and being wooed by casino operators. In addition to the two public-private coalitions making up its civic sector, Detroit recently created a committee for Community Reinvestment Strategies, intended to coordinate resources and enlist community input. The question is whether current residents will actually get a say in the use of resources. Are they saving themselves, or being saved?

Community participation has always been part of former HUD Secretary Henry Cisneros's pitch for the continued viability of empowerment zones, and in many cities it's working. But citizen responsibility is often a euphemism for citizen obedience. To qualify for Detroit's renewed public housing, for instance, hopeful residents must participate in job training, education, and home-ownership programs. If they don't consent to the majority's imposition of the culture of customer service—that is, if they don't appreciate the courses in hospitality management, slot machine repair, and card dealing now being offered by several community colleges—then they are likely to lose out.

In those places where carnival cities are already a reality, the primary goals of civic leaders—including public, private, and community representatives—should be minimizing the costs of perpetual reinvention and avoiding the descent into economic colonialism. Otherwise the lucky, who have always been lucky, will carouse behind the guarded walls of their personal Disneylands. And the unlucky, for whom the rebirth of cities is ostensibly intended, will be accosted with a demand they cannot meet: "Tickets, please."❑

An Invisible Community

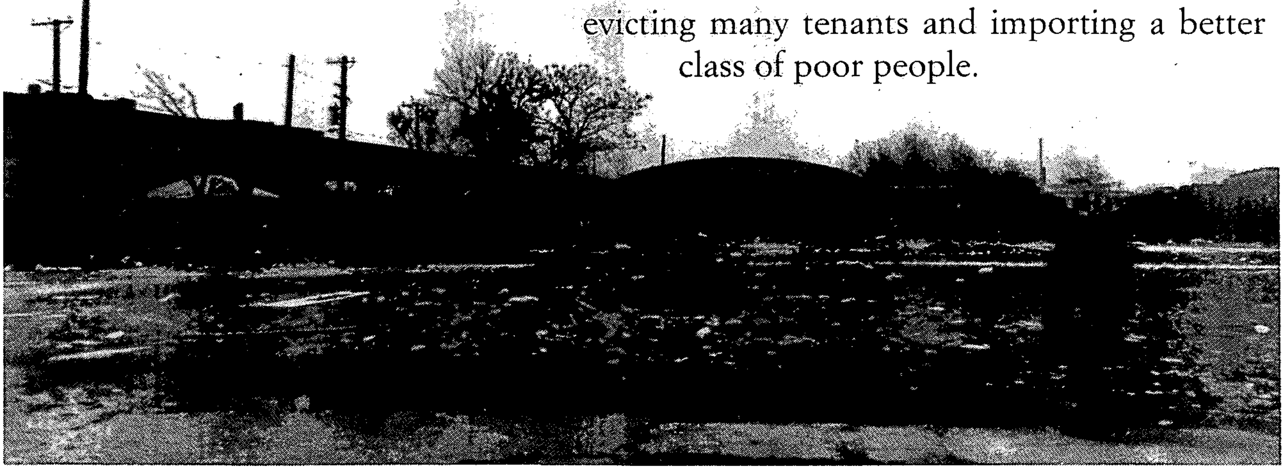
Inside Chicago's Public Housing

BY SUDHIR ALLADI VENKATESH

Chicago's plans for restructuring its public housing developments and ending the "nightmare" of high-rise public housing living are ambitious: construction of large mixed-income residential developments; guaranteed relocation of displaced tenants; adequate living accommodations for those who want to stay in the community; and an environment free of the scourges of American public housing—gangs, drugs, and crime. At media events celebrating the plans in 1995, public housing tenants stood alongside then Housing and Urban Development (HUD) Secretary Henry Cisneros and city officials, telling reporters that the tenants were grateful for being "freed to choose" the private housing market. Claiming to speak for those living in the city's public high-rises, these individuals, almost always middle-aged and elderly women, asserted that residents support wholeheartedly the demolition of their current living quarters.

Yet beneath these smoothly choreographed public displays lies a more complicated story. The tenant spokespersons who speak at such press conferences are not as representative as they might seem. Indeed, it is no secret that some tenants living in Chicago's public housing developments question the sincerity of the Housing Authority officials who equate high-rise demolition with social betterment.

HUD likes to tout Chicago as a model for public housing reconversion in the rest of the country. But in the current environment, what assurance is there that the displaced tenants will be taken care of? Subsidies for low-income housing are being cut back. At this writing, the 1997 housing bill, calling for the demolition and dilution of public housing projects, has passed the House and is awaiting action in the Senate. The bill would remove large numbers of very poor people from public housing without providing for alternatives. Essentially, it "solves" the public housing problem by evicting many tenants and importing a better class of poor people.



Public housing has its problems and there are good arguments for improving it or eliminating it. But it doesn't look so bad when the alternative is to be thrown into the low end of the private housing market, where the social support networks of public housing communities do not exist.

Public Housing as a Community

In an intensive four-year study of the Robert Taylor Homes in Chicago, I met hundreds of public housing families and observed the workings of tenant management, street gangs, and administrative institutions such as the Chicago Housing Authority (CHA) and the local police force. Tenants brought me into their lives and even allowed me to stay in their apartments so that I could see their everyday struggles. While this experience made clear the many hardships of life in public housing, it also disclosed less visible supportive institutions.

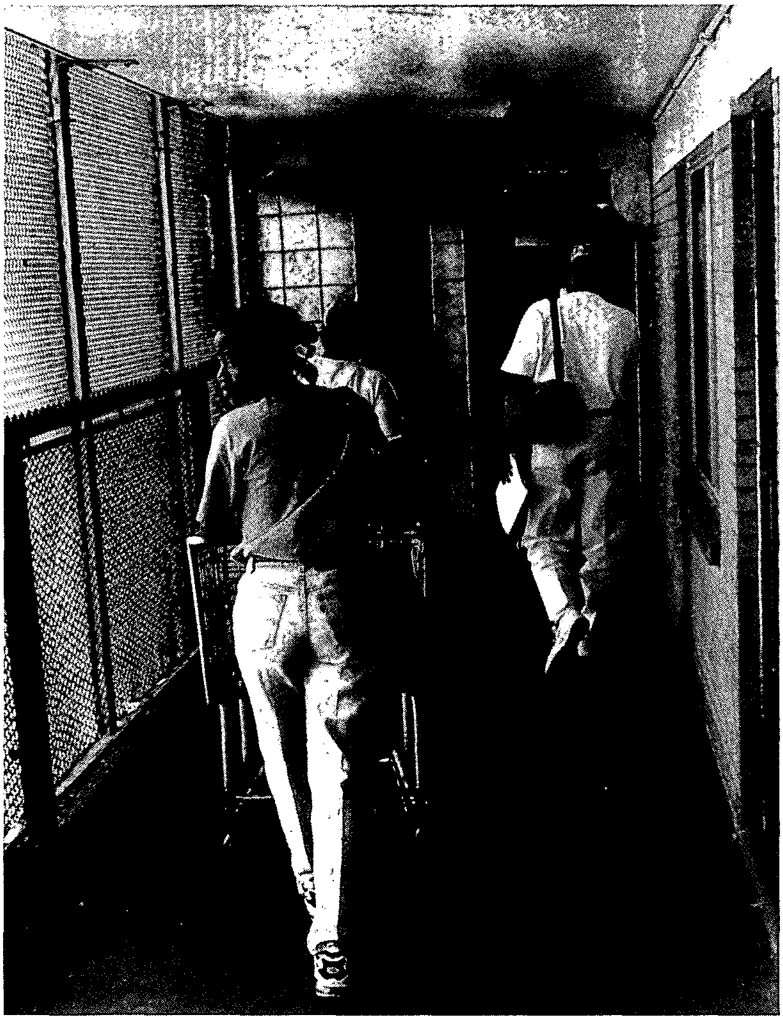
> Public housing doesn't look so bad when the alternative is to be thrown into the low end of the private housing market, where the social support networks of project communities do not exist.

The people who live in public housing do have resources that mitigate poverty and social isolation. And existing public housing developments are often in physically better condition than the surrounding landscape. In 1986, James Wesley, the CHA's director of technical services, said emphatically that high-rise public housing buildings are "not ready for demolition. If you maintain them, they're going to last forever, just like the Empire State Building." This is in sharp contrast to other ghetto locales dominated by dilapidated and boarded-up buildings, burned and razed structures, and vacant lots.

The private housing market exposes working tenants to great instability. Private housing residents are shuttled around by rezoning, redevelopment, renewal, evictions, and slumlord neglect. Residents flee intolerable sanitary conditions, rats that bite their children, and other domestic hazards. In this context public housing remains an oasis of stability not simply for "dependent" single-parent families, but also for poor and working households who at the very least can rely on their housing status when all else is in flux. As a result, public housing is very desirable to many people: CHA currently has waiting lists of approximately 111,000 (which includes current tenants seeking to change apartments or switch developments, as well as families in the "community at large" seeking public housing in their immediate area and residents of the "city at large" hoping to enter public housing).

Many tenants in buildings slated for demolition do not simply see a set of buildings being torn down—they see their community being erased. They fear that forced relocation to an unfamiliar neighborhood could well be worse than their current situation. In many respects, certainly, Chicago's high-rise complexes are inhospitable environs that house a disproportionate share of the city's social ills. However, economically distressed private rental communities also confront high crime, unemployment, and family instability. All of Chicago's segregated poor African-American communities face great problems. For example, the Robert Taylor Homes have an overall unemployment rate around 90 percent (an official estimate that should be regarded cautiously, since residents often hide jobs and income), and 84 percent of residents earn less than $10,000 a year. But the figures for the surrounding communities are not much better. In Washington Park, two-thirds of the adult population report no gainful employment and the median household income is $8,951; in Grand Boulevard 75 percent are unemployed and the median household income is $7,907. The Chicago Board of Education staff reported that, based on current dropout rates, almost 66 percent of Robert Taylor's residents will not graduate from high school. But the figure in the surrounding communities also exceeds 50 percent.

The logic that undergirds Chicago's highly touted redevelopment plans ignores the small but significant benefits that public housing structures



positive social aspects of public housing and the real alternatives that residents face. In Chicago, many of the large high-rise complexes house people who have lived there for generations. While tenants are obviously not happy about rising crime, visible street gang activity, and entrenched drug use and distribution, they nevertheless continue to rely on important social supports that are located in the community. Peer and kin networks provide invaluable child care assistance, temporary shelter, and friendship. Moreover, myriad social control mechanisms, such as tenant patrols and floor watches, provide a relative measure of safety and enforcement, not to mention available lobbyists for more effective policing. "At least around here," one elderly resident told me, "we always know who the criminals are."

When tenants are thrown into the private housing market and forced to accept housing in an unfamiliar community where police presence is just as minimal, they will no longer be assured such self-help systems and relative security. Public housing may not, in fact, be a significantly more dangerous place to live. In 1995, the Robert Taylor Homes housed 16 percent of the surrounding community's residential population and 20 percent of its homicides. The housing development's per capita annual homicide rate is 1 for every 2,760 persons, compared to 1 for every 3,045 in the surrounding area. In 1996 public housing residents comprised roughly 3.7 percent of the city's population, but the crimes to person and property on CHA grounds were 2.33 percent of the total in the city. Some violent offenses were higher (homicides were 5.1 percent of the city's total), but other types of assault and robbery remain close to the city's rate. The crime rates in public housing are nothing to be proud of, but they might be even higher if it were not for the mechanisms the residents have adopted to prevent and respond to social transgressions.

provide to their encompassing communities. In CHA reports as well as privately submitted development proposals, public housing communities are represented as lifeless spaces, impediments to the optimal, market-driven use of the metropolis. To justify the razing and gentrifying of these high-rises, housing officials and the Chicago media argue that public housing communities breed more of society's pathologies than other spaces do. The *Chicago Tribune*, for example, "prays" that "the nightmare [of diseased public high-rises be] ended once and for all." Armed with the popular appeal of "urban renewal," the remedy becomes obvious: destroy the high-rise structures and you destroy the cause of the pathology. What could be simpler?

This line of argument has appeared nearly continuously in both newspaper editorials and general journalistic reportage on Cabrini Green, Henry Horner, the Robert Taylor Homes, and other famous high-rise developments, but it ignores the

Because of their size, population, and proximity to transportation corridors, public housing developments offer affordable goods and services

such as inexpensive clothing and foodstuffs, gypsy cab service, car repair, and craftsmen (plumbers and painters, for example). They also currently house thousands of blue- and pink-collar laborers who work under the table or who accept menial wages in the mainstream economy. Stand on a street corner near the Robert Taylor Homes on a weekday morning and you will see vans arriving to solicit and transport residents to construction sites, fast food centers, and asbestos firms outside of the city.

Myrna Harris lives in the Rockwell Gardens public housing development. Though life for her family is hard, her apartment is a model of cooperation. When a niece loses her menial, part-time job, she moves into the Harris household with her infant daughter until other employment can be found. She shares a bedroom with Harris's teenage son, who is saving up money for the one month's rent and security deposit required by a local landlord, into whose apartment he hopes to move with his girlfriend and child. In addition, Harris's small apartment houses her daughter (who is attending a local community college), granddaughter (who is enrolled in elementary school), and uncle (whose job as a short-order cook currently does not enable him to live alone and simultaneously meet child support, transportation, and other costs). Each person contributes to the household by bringing home groceries, buying supplies, lending money to one another, and babysitting.

This is not the American Dream. But as Harris herself puts it: "You see how my place is. Ain't no different no place else in [my] building. People know people around here, [they] help each other, do what they can. They come and go. They have been doing that long as I can remember. They start tearing this place down, it just makes things worse than they already are." The two principal Housing Authority strategies— gentrification of existing public housing tracts and "scattered-site" dispersal of families across the city—threaten these cooperative arrangements and supports while providing no other alternative. An earlier and critically acclaimed plan called the Gautreaux program moved tenants into dispersed private housing by providing an array of supports ranging from day care to job placement and training [see Peter Dreier and David Moberg, "Moving from the 'Hood: The Mixed Success of Integrating Suburbia," *TAP*, Winter 1996]. But having been offered only bare-bones relocation assistance, current public housing residents question whether a Gautreaux-level commitment will follow their move out of high-rises.

Nor is permitting residents to return to redeveloped communities necessarily an attractive alternative, especially if the redevelopment involves commercial gentrification. When hearing of the plans to demolish the Robert Taylor development, an owner of a nearby mom-and-pop store said quite directly, "These people are poor. I give them credit and I let them pay me when they can and they bring their business to me. You think Jewel [a large grocery chain] would do that?" Without steady employment, those who choose to stay may find their new ecology financially out of reach. This is a real concern for residents living in Chicago's Cabrini Green development. In the city's redevelopment plan, officials boast of 2,500 construction and 900 permanent jobs that will be created in the community. Union card holders, however, are expected to fill the majority of positions, with only 200 or so jobs remaining for Cabrini residents.

Bureaucrats and journalists in Chicago routinely manage to locate tenants who say, "I want to leave public housing." These cries serve as fodder for editorials that praise the "courage" of housing officials who are "making the tough choices" by tearing down high-rises. But these pleas for escape sound different placed alongside comments like Myrna Harris's. CHA reports do not convey residents' fondness for the community or their reluctance to live someplace else—especially when someplace else is a remote tract 20 miles outside of the central city (typically polluted areas without easy access to public transportation or employment centers) or an apartment in an inhospitable area devoid of family or friendship. Public housing tenants' feelings about demolition are more mixed than most of the media allow. Conflict over demolition leads to discord not just between Taylor residents and CHA officials, but among tenants.

Empowerment or a Working Faucet?

The history of politics and tenant representation in public housing makes even clearer the dangers of accepting at face value tenant pronouncements in favor of demolition. In the early 1970s, after a

decade of organized struggle, public housing tenants throughout the country successfully fought their respective local housing authorities to win greater roles in management decisionmaking. In Chicago, tenants were struggling simply for the right to meet in their apartments. Initially, the CHA argued that "political" gatherings held in "domestic" spaces were illegal on the grounds that they were subversive and could possibly lead to the overthrow of the Housing Authority. Violators of these regulations were threatened with eviction, a form of pressure eventually declared unlawful by the courts. But the CHA continued to place pressure on uncooperative tenants, not only harassing them but also refusing to service their apartments and relocating them to apartments far away from friends and political colleagues.

Successfully challenging such tactics, in 1971 Chicago's tenants elected their own representatives to lobby the CHA on their behalf. But the CHA quickly adapted and found other ways to minimize tenant mobilization. By far the most successful method was providing elected tenant leaders with modest cash and in-kind benefits in return for their silence or support. Over the next two decades, this patronage system became entrenched. After a while, cooperation with officials became the condition for residents' continued receipt of prompt maintenance services, HUD funds, and even law enforcement. Some ambitious, idealistic residents do campaign for tenant support on a platform of reform, empowerment, and more responsible CHA management. But these assurances can't compete with those of CHA-supported candidates, who can promise such tangible benefits as immediate repair of apartments, upkeep of public areas, and increased guard patrols.

A Model for the Country?

Chicago has long been at the vanguard of the country's approach to public housing, setting the standard for the urban renewal legislation that led to the Housing Act of 1949 and, more recently, serving as a model for new law enforcement procedures and investment strategies for the Bush and Clinton administrations. Thus HUD officials are anxious to see what discussions in Chicago among the mayor, CHA management, and tenants may portend for negotiations in other cities.

Observers are paying particularly close attention to the $315-million Redevelopment Initiative plan

for the Near North corridor, in which the Cabrini Green Homes sit. The area is slated for mixed-income usage, with row housing, duplexes, and mid-rise buildings alongside rehabilitated high-rise structures. A new "Town Center with . . . shopping facilities, new schools, a district police station, and a library" have been promised; Dominick's, a large grocery store chain, has already committed itself to becoming part of this "village of opportunity." More than 1,300 of Cabrini Green's housing units will be demolished and an estimated 2,000 to 2,300 new housing units will be constructed, some on CHA land and the others on lots owned by two prominent city developers, Daniel McLean and Allison Davis. On its face, the plan would at long last enable public housing residents to become part of working- and middle-class communities, as opposed to poor and racially segregated ghettos.

> Many tenants in projects slated for demolition do not simply see a set of buildings being torn down. They see their community being erased.

Before the plan was formally introduced, some tenants voluntarily accepted federally subsidized vouchers for private housing and left the community altogether. Many others, however, have expressed interest in staying put. In addition to job allocations in the construction phase, the biggest source of contention among tenants and plan sponsors is now over the number of housing units that will be dedicated to current Cabrini Green residents and the number given to new "market-rate" tenants. Fifty percent of the 2,000 to 2,300 units are set aside for people making more than 120 percent of the city's median annual income ($45,000) and 20 percent for those earning between 80 and 120 percent ($36,000-45,000). The initiative allocates only 300 to 325 of new units to people earning less than $22,500 per year, but 77 percent of Cabrini Green's 6,000 residents earn less than $8,000 yearly. Fearing a forced exodus, tenant advocacy groups have filed lawsuits to stop the redevelopment until families in the community have stronger assurances of housing.

Given all this, why is Chicago a model for national policymaking? New York might be a better one. Whereas Chicago's largest public housing developments are remarkably homogeneous (out of an official population of 12,000, there are two whites living in the Robert Taylor Homes), New York has some racially mixed developments as well as buildings that are in or near multiethnic neighborhoods and business districts. Chicago's current residential patterns in public housing are a legacy of the segregationist strategy of the first Mayor Daley, who offered public housing to blacks as a form of patronage, with the proviso that it be divided along racial lines. New York's most successful public housing developments are economically integrated. Chicago's, in contrast, only house poor and nonworking families. While Chicago's public housing tenants have extraordinarily high rates of welfare recipiency (92 percent in Robert Taylor receive either public assistance or a benefit such as disability or Social Security), few of New York's tenants are on welfare. In the mid-1980s, for example, when the national rate was 44 percent, only 27 percent of New York tenants were on the welfare rolls, the lowest in the country at the time. Instead of tearing Chicago's public housing down, it might make more sense to attract more working families to the existing structures.

It remains to be seen whether tenants of Chicago's high-rise public housing developments will be able to influence the decisions to raze their homes and communities. Few promises made by the mayoral administration and Housing Authority officials have borne fruit. Years after the fact, residents of a displaced high-rise public housing community in Chicago's Oakland/North Kenwood neighborhood are still wondering what happened to earlier CHA commitments for guaranteed relocation and the possibility of remaining in the community if they desired.

Not all the residents who are opposed to the current plans are against demolition per se. Many are simply fighting to understand the decision-making process and procure legally binding agreements that will enable them to live in comparable quarters. The media and public officials all claim to favor greater "choice" for the tenants of public housing. The tenants would be delighted if they would just live up to that ideal.❑

THE MYTHOLOGY OF CENTRISM

WHY CLINTON AND BLAIR REALLY WON

BY STANLEY B. GREENBERG

When Tony Blair and Bill Clinton held a joint press conference in the Rose Garden at 10 Downing Street in London on May 29, they might just as well have been standing in a place called the "radical center" or "dead center," to judge from the accounts of the American press. The *New York Times*, for example, wrote that Clinton and Blair shared an "unabashed moderation," while the *Washington Post* reported on the statesmen's "moves to the center." Of course, it is hardly surprising that the press accounts focused on centrism when the two world leaders themselves took turns scorning "doctrine" and "ideology" and applauding "fiscal responsibility" and "prudence."

For many on both sides of the Atlantic, the Democrats' breakthrough election in 1992, followed by Labour's breakthrough in 1997, represented the successful pursuit of a "more moderate market niche"—the triumph of "electability," in Joe Klein's characterization. But reducing these breakthrough elections to the triumph of centrism misses entirely the election dynamics that allowed Clinton and Blair to win. Centrism offers only a partial, indeed, a revisionist, account of the policy priorities advanced under the banner of the New Democratic and New Labour campaigns (which I know well, since I worked as a pollster and political consultant for both). According to the centrist interpretation, Labour and the Democrats reinvented themselves by attracting more moderate, affluent voters who were looking for financially prudent parties. In fact, the opposite happened: Blair and Clinton were catapulted into office by the new votes of working-class and lower-middle-class voters who were becoming uncomfortable with the marketization of all areas of public life. Voters were trying to rein in Reaganism and Thatcherism.

HOW CLINTON WON

In the United States, conventional wisdom regularly pronounces that President Clinton recovered from the 1994 congressional debacle and won reelection by reclaiming his centrist, 1992-New Democratic mantle [see, for example, "Why Did Clinton Win?" by Will Marshall and Mark Penn, *TAP*, March-April 1997]. But Clinton's first presidential campaign was not only centrist—it advanced both an economic and values-based agenda. During the 1992 campaign, Clinton pledged to create eight million jobs, expand public investment, and guarantee health insurance coverage for every American. He also promised to raise taxes on the wealthiest and consistently attacked the irresponsibility of those at the top who multiplied their own compensation while depleting the companies they headed.

Clinton's populism and activism were combined with a commitment to elevate values and change a Democratic Party that had lost touch with most working people in a new industrial age. Bill Clinton in 1992, not just 1996, talked about honoring work and family, promising to "move people from welfare to work"; he supported tough crime measures, including the death penalty; and he pledged to cut taxes for the middle class.

The 1992 Clinton campaign reached out to working people by addressing their hopes for economic renewal and a restoration of values important to working- and middle-class family life. The 1996 Clinton campaign, however, sought to stamp out any signs of such "class warfare" or any identi-

fication with economic grievances, concentrating instead on touting the strong economy and Clinton's support for family values and a balanced budget. Yet the message the voters sent pollsters was crystal clear: Their main reason for voting for Clinton was his defense of Medicare and education. Voters wanted to stop the conservative assault on the system of retirement security and government-supported social support.

We should remember that the party of Franklin Roosevelt and Harry Truman had failed to win a majority of working- and middle-class votes in any of the three presidential elections of the 1980s. Clinton carried those voters in both of the presidential elections of the current decade. Clinton's electoral success has allowed the Democrats to reemerge as a viable presidential party—not because of centrist appeals to more affluent voters, but because recent Democratic campaigns have rekindled a kind of popular progressive politics.

THE SECRET OF LABOUR'S SUCCESS

The rush to interpret New Labour and Tony Blair's landslide win through the lens of centrism is an even more grievous distortion of events. True, Labour won in part by reassuring voters that it could manage public finances and the unions. But the party also won by promising more investment and less privatization as well as renewed public services and a reduction of economic inequality. Blair's "one nation" appeal was distinctly populist, conjuring a vision of a Britain where everyone, not just the privileged few, could prosper.

To be sure, Blair could not have achieved this victory without monumental efforts to reassure voters that Labour could keep the trade union forces in the party ranks under control. The Labour Party, much more than the Democratic Party, had lost the confidence of the people and forfeited its claim to lead the country. Labour had fallen far since the years after World War II, when voters had turned dramatically to the party to give working people a stake in Britain's industrial economy. Clement Attlee's Labour government nationalized the Bank of England, the coal mines, the railways, and the steel industry, and created the National Health Service. Labour's success extended even into the 1960s under Prime Minister Harold Wilson.

But the overly close embrace of the trade unions and the state proved dysfunctional to the changing postwar Britain, and the Labour Party crashed as perhaps no other center-left party in the Western world. Under Prime Minister James Callaghan between 1976 and 1979, the last Labour government before Blair, trade union strife brought the legendary "winter of discontent," when rubbish piled up in Leicester Square and trade unionists refused to bury the dead. Out of power in the early 1980s, the party swung left, championing massive increases in spending and taxes, wholesale nationalization, and unilateral disarmament, effectively nullifying any chance of recovery.

By 1983, the Labour vote had sunk to a mere 28 percent. Blue-collar workers, who had cast two-thirds of their votes for Labour in the 1960s, failed to give them a majority in any election in the 1980s. In 1992, despite a recession, Margaret Thatcher's disastrous "head tax," and the unpopularity of the Conservative government, Labour could muster only 34 percent of the vote and lost by eight points.

How Labour Won

Thus Blair's first task as leader of the Labour Party was to restore public confidence in Labour's ability to govern. For Blair and party reformers that meant visibly limiting the power of the trade unions in party affairs. During his first three years as party leader, Blair used rule changes to limit union voting power, campaigned successfully against bitter union opposition to end the party's historic commitment to nationalization, and endorsed many of Thatcher's trade union regulations. Labour also did something previously unimaginable by reaching out to Britain's business leaders. On public finances, Labour offered, in effect, an extraordinary probationary period. It promised not to raise income taxes during the life of the next parliament, to operate for two years under the ceiling of the Conservatives' budget, and to cut the value-added tax (VAT) on fuel. Labour also expressed a new protectiveness about responsible "hard-working families" and promised tough new measures on crime that would speed up prosecutions. Remarkably, by election day, according to the exit polls, voters judged Labour to be as capable as Conservatives of keeping taxes down (33 to 32 percent) and managing the economy (34 to 33 percent) and even judged that Labour would be more effective than the Tories at fighting crime (33 to 25 percent). According to Labour's own polling, a majority of the electorate rejected the charge that New Labour was just Old Labour in new clothing.

The centrist version of the Labour victory is right about one thing: Voters wanted the reassurance that New Labour really was new. But what the centrist story misses is that voters also wanted a government that would slow privatization and diminish inequality. The centrist interpretation glosses over Labour's commitment to save the National Health Service—its promise to increase spending in absolute terms each year, to cut the waiting lists, to increase the number of nurses, and to abolish Thatcher's "internal market" for health care services. It glosses over, too, Labour's commitment to increase the proportion of gross domestic product (GDP) spent on education and its promise to shift state subsidies from private to public schools. And it misses Labour's commitment to institute a minimum wage and sign the European Social Chapter. Finally, Labour's promise to tax the "excess profits" of the privatized utilities—from 3 billion to 10 billion pounds—to finance 250,000 government-created jobs for the long-term unemployed is hardly centrist, at least not in the sense Clinton watchers typically use the word.

What Britain Voted For

Quite simply, voters wanted Labour to be more "moderate" so it could be trusted to do the right things once in government. According to exit polls, 72 percent of Labour voters—including 60 percent of first-time Labour voters—wanted the government to redistribute income from the better off to the less well off. An even larger number of voters (75 percent of Labour voters overall and 71 percent of new Labour voters) favored raising taxes to increase spending on the schools. And a still larger number (84 percent of Labour voters and 73 percent of the new ones) expressed the hope that the government would carry out no further privatization.

When British voters went to the polls, the choice could not have been more clear. The Tories were promising to reduce government spending even further as a proportion of the GDP, while Labour was promising to curtail Thatcherism's reach into the future. The Tories viewed expanded choice and privatization as the route to future prosperity; Labour promised to end the market in health care services, stop the expansion of private school choice (and expand spending on mainstream public schools), and stop the privatization of the state pension and the threatened privatization of the London Underground. Labour's runaway victory spoke clearly. Yet despite this stark progressive mandate, commentators heard only the call to centrism.

The battle for the meaning of the terms "New Democrat" and "New Labour" is probably lost in the United States. American pundits and politicians are convinced that these terms must stand for a stripped-down centrism that reduces the public's mandate to fiscal prudence and political compromise. Columnists insist on interpreting Labour's landslide in terms of the diminished aspirations of the second Clinton administration. But neither the British nor the American public was expressing diminished aspirations in the last election. Both countries voted for reformed center-left parties that would fight the extension of Reaganism and Thatcherism and that would strive to make government work for ordinary citizens. That is the popular banner that progressives should reach for to win the support of electoral majorities.❑

The Neglected Remedy

Strengthening Consumer Voice in Managed Care

By Marc A. Rodwin

Managed care seems finally to have done what health care reformers a few years ago couldn't accomplish: stir demands for more government regulation. After some health maintenance organizations cut hospital maternity stays to a maximum of 24 hours, the caption of one editorial cartoon read "HMOs—Heaving Mom Out," with an image of a mother in a catapult hospital bed. Then the press learned that managed care organizations had contract clauses, dubbed "gag rules," that bar doctors from making critical comments about the organization to their patients, discussing unauthorized treatment options, or disclosing how they are paid. On its cover *Time* magazine pictured a doctor gagged with a surgical mask. Soon federal and state legislators, including Republicans, were falling over each other in the rush to regulation.

Were these freak exceptions in the era of deregulation? Maternity is, well, a motherhood issue, and gag clauses overtly trample on patients' and doctors' rights. But while distinctively resonant as symbols, drive-through deliveries and gag rules illustrate a more general problem: the folly of relying exclusively on market choice to protect the interests of health care consumers. Yet government rule making about medical care isn't the only alternative. There's another option: giving consumers a more direct voice in managed care organizations.

Exit, Voice, and Managed Care

Health policy today gives too much credence to the efficacy of markets and too little to the efficacy of consumer voice. Consider the ideal system envisioned by Alain Enthoven, perhaps the single most influential thinker about health policy in recent decades. Enthoven's core idea is that the best way to control health care spending and increase the availability and quality of services is to give consumers a choice among competing managed care organizations. Enthoven does acknowledge a need for oversight by purchasers, government, or quasi-public "sponsors" to encourage competition over price, quality, and service. And he would limit consumer choice to standardized benefit packages to allow for easier price and service comparisons. But, for Enthoven, the engines driving change are financial incentives for individuals to shop for a health plan that offers the best value. If the performance of an organization declines, its customers or members will become dissatisfied, and their defections will signal the firm to clean up its act.

But will consumers switch to a competing health plan they prefer? Will they have a genuine alternative to switch to? The limitations of Enthoven's model become clear when compared to the ideas of the economist Albert Hirschman, author of the classic, *Exit, Voice, and Loyalty*. In Hirschman's model, there are two choices: not just exit but voice—complaints, grievance, protests, and political pressures. Sometimes exit and voice reinforce each other, while at other times they may be at cross-purposes. Each has strengths and limitations. Exit, for example, sends a powerful signal that something is wrong, but little or no information about the problem or the remedy.

Health policy today gives too much credence to markets and too little to consumer voice.

Health policy now emphasizes consumer exit—switching providers and plans. That emphasis underestimates the limitations of exit as well as the potential role for consumer voice as a complement and an alternative to exit. For example, the Health Maintenance Organization (HMO) Act of 1973 requires an annual period of HMO open enrollment to allow consumers to change providers—but it requires no consumer voice. Federal antitrust law promotes consumer opportunities for switching providers as a desirable goal. Health care researchers focus on how consumers choose among competing managed care organizations and the kind of information consumers want and need to make effective choices. Consumer groups and others rate managed care organizations and issue report cards to facilitate consumer choices. What does such choice entail? Exiting from one managed care organization to another.

Private employers, particularly large ones, typically allow employees to switch health care insurance plans on an annual basis. So does the Federal Employees Health Benefits Program (FEHBP), which provides employees choice of more than 400 health insurance plans meeting minimum standards. The new managed care organizations also foster more choice. The fastest growing types of managed care—independent practice associations, preferred provider plans, and point-of-service plans—allow consumers to opt out of the preferred list of providers if they shoulder greater copayments. This is a change from the traditional HMOs, which limit services to their own staff physicians.

Advocates of medical savings accounts (MSAs) would provide consumers more opportunities to switch; individuals would have no restrictions on choice of providers and increased incentives to shop for low-priced providers. "Any willing provider" laws would also increase choice of providers within managed care organizations so that consumers could choose new physicians without leaving the health plan. And Clark Havighurst, a leading health care lawyer, would expand choice by allowing consumers to contract for different standards of care.

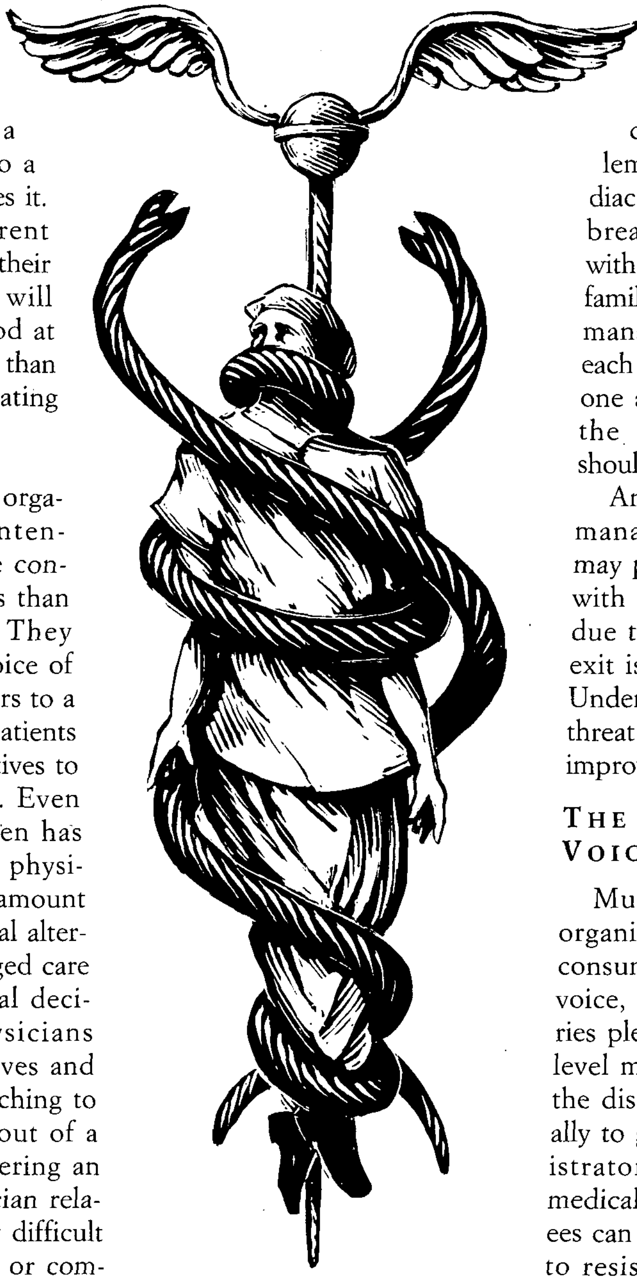
The Limits of Exit

Policy favoring exit is one thing, but market reality is another. Most firms—particularly small and mid-sized firms—offer employees little choice. In 1996, 52 percent of mid-sized firms offered workers only one plan and only 24 percent offered three or more. The poor, in particular, have few exit options. Some state Medicaid programs lock beneficiaries into a managed care plan, generally the one with the lowest premium.

Clearly a powerful tool for change, exit is often limited as an option or in its effect because of unusual features of medical markets. Ownership of managed care organizations and hospitals is becoming concentrated. Some analysts believe that a few oligopolies will soon dominate the market and that these organizations will become complacent about the risk of losing market share and therefore less responsive to consumer switching. Hirschman calls attention to what he calls lazy monopoly or collusive behavior. In a restricted market, a firm may choose to be rid of its difficult customers rather than change its behavior to please them. If a problem is endemic among all rival plans, dissatisfied customers will only be able to switch to an equally unresponsive competitor.

Consumers can't switch among health insurers more than once a year in most employer-sponsored insurance plans. Current law allows Medicare beneficiaries to leave HMOs with 30 days' notice, but proposed legislation would limit changing plans to once a year. There are some sound reasons for this policy.

If people can switch between plans at will, they may first opt for a low-cost plan with limited benefits until they need a service and then jump to a high-cost plan that provides it. But if the rates of different plans reflect the health of their subscribers, the market will reward plans that are good at avoiding sick people, rather than plans that are good at treating them.



Managed care organizations intentionally give consumers fewer exit options than traditional insurance. They either restrict patient choice of doctors and other providers to a closed network or offer patients significant financial incentives to use preferred providers. Even when available, exit often has limited value. Switching physicians within a plan may amount to no choice among clinical alternatives because the managed care plan regulates the clinical decisions of *all* of its physicians through financial incentives and organizational rules. Switching to another provider, in or out of a plan, may also mean severing an established patient-physician relationship. Exit is especially difficult for patients with chronic or complex conditions that require coordination among medical personnel or particular knowledge of the case. And especially for the sick and the frail, shopping for medical care may be physically and emotionally difficult. Exit in medical care is most useful as a last resort. If a managed care organization's performance is mediocre but not bad enough to make consumers willing to leave, they may simply suffer poor quality and the market will not do its work.

The fact that managed care is a bundle of varied medical services, medical providers, and health insurance also makes exit a crude tool. Consider a family of three, each with different medical problems: the father with a cardiac problem, the mother with breast cancer, and the child with asthma. Suppose that the family can choose among three managed care organizations, each of which is strong in only one area of medical care that the family needs. Which should the family choose?

And, most perverse of all, managed care organizations may prefer to lose subscribers with high-cost illnesses since, due to fixed premiums, their exit is the organization's gain. Under these circumstances, the threat of exit will not encourage improved performance.

The Virtues of Voice

Mute exit does not tell an organization the source of the consumer's dissatisfaction, but voice, as the term implies, carries plenty of information. Top-level managers also often need the dissatisfied consumer as an ally to get clinicians and administrators to change. Similarly, medical staff and other employees can use the patient as an ally to resist undesirable practices imposed by managers.

Voice comes in many varieties. Individuals can complain, file grievances, appeal to higher authority, leak information, participate in governance, bargain collectively, or become active in politics. They may express their concerns to management, potential customers, or influential outsiders such as policymakers, the press, or activists who may take up their cause. Voice can be exercised episodically as special circumstances arise or continuously through established consultative mechanisms.

Within managed care organizations today, consumers lack effective institutional means to express their voice. Physicians and other providers often serve on committees that set medical standards; purchasers decide what benefits are to be covered and bargain with managed care organizations over what their contract will provide. Consumers' main options, however, are only to file complaints or grievances and to express their opinions in membership satisfaction surveys.

Market theory suggests that if enough consumers had wanted longer maternity stays than were standard, at least some managed care organizations would have tried to lure them away from competitors by catering to their wishes. That didn't happen, so the political process delivered what market exit did not. Twenty-eight states and Congress passed statutes that prevented managed care organizations from imposing short maternity hospital stays. Similarly, 19 states have prohibited gag clauses, the federal government has prohibited their use in the Medicare program, and bills are pending in Congress that would outlaw them entirely.

Still, consumers can't depend on legislation whenever markets fail. Law is costly and insensitive to individual circumstances—not a desirable or feasible means for consumers to express their everyday wishes. Special circumstances made it easier to enact limits on drive-through deliveries than to get action on other consumer issues. The problem was visible and easily understood, and the number of potential beneficiaries was large and easily organized. Gag rules threatened to deny all consumers enrolled in managed care the opportunity to hear information about alternative treatments.

Gag rules highlight the limited options for consumer voice. Managed care plans wrote such clauses to restrict the flow of negative information about their policies from physicians to patients in the hope of decreasing consumer exit to competitors. They sought to chill physician speech and thereby to repress potential consumer complaints as well. The clauses may never have been legally enforceable if tested in court, but their prohibition may do little to answer the underlying public concern. When the contracts of troublesome physicians expire, managers of health plans can simply not renew them, rendering anti-gag clause legislation ineffective. Legislation prohibiting managed care organizations from suppressing physician and consumer voice won't be sufficient; we need laws and institutions that actively foster voice within managed care organizations.

In fact, well-run managed care organizations do make efforts to find out what their consumers want. Consumer satisfaction surveys are a form of voice. Like polls in electoral politics, they shape how leadership responds to the public, and perhaps even displace more traditional forms of voice, such as protest and complaint. Consumer satisfaction surveys have led managed care organizations to increase the hours for appointments with physicians, to train medical personnel in communicating and empathizing with patients, and to create new ways of compensating physicians to reward consumer satisfaction.

Not surprisingly, managers typically undertake consumer surveys more for internal use or public relations. The information can bolster their own control by helping them to respond preemptively to problems. Managers can disclose results that show the organization in a good light and keep other data confidential. In short, consumer satisfaction surveys are not the instruments of consumers, who have no role in developing or analyzing them or disseminating the results.

Fostering Consumer Voice

While patients are vulnerable to poor care in any setting, managed care organizations pose two special problems. They have an incentive to withhold services, and they exercise control over doctors, hospitals, and other providers, which means there may be fewer independent checks to failure. These features make it important for consumers to have means to resolve their problems and to make managed care organizations responsive to them. Consumer voice can be a useful tool, but it will not thrive without institutional support.

Public policy could promote the use of voice by creating communication channels and lowering the cost of voice. Governments could finance or create incentives for managed care organizations to give consumers a voice. The institutions that accredit managed care organizations might set standards for consumer voice.

Hirschman distinguishes between vertical voice (individuals privately and separately expressing themselves to the organization's management) and horizontal voice (organized discussions and activities of consumers

or employees). Each kind requires different channels. Many people become concerned with policy only when it affects them directly. Their initial response often is through grievance: It is direct, tied to individual concerns, and often produces results quickly. Some problems, however, require changes in policy and even a consumer role in governance.

Grievance. Managed care organizations should create mechanisms for resolving formal grievances that are fair, speedy, and easy to use. Most plans do have grievance procedures, but except for Medicare HMOs, there are no uniform standards in force, and consumer groups have found existing procedures deficient.

Most complaints today are reviewed solely by the managed care organizations themselves. In effect, the consumer is seeking redress from an interested source. Many consumer groups and legislative proposals, therefore, would allow patients to appeal to a neutral independent party if their doctor or the managed care organization decides that a medical service is unnecessary or inappropriate. The managed care industry has not yet adopted such proposals for all denied services. In California, however, the industry supported legislation, recently enacted, that would allow appeals to neutral experts outside the managed care organization whenever it denies a bone marrow transplant or other experimental therapy. And Medicare already contracts with an expert organization, the Center for Health Dispute Resolution, to review all denials of services for beneficiaries in HMOs.

Grievance procedures would be fairer if the individuals who adjudicated grievances were in all cases independent, justified their decisions in writing, and had authority to reverse an organizational practice or decision without fear of retaliation. There should also be some kind of institutionalized advocacy for consumers. If purchasers paid for independent professional advocates to assist consumers, it would inspire confidence in the grievance process. Finally, there needs to be protection for individuals who initiate a formal grievance, and prompt and visible penalties against the organization if it retaliates.

Grievance mechanisms, however, are usually designed to resolve individual complaints, not the underlying institutional problems. Managers sometimes placate individuals who voice complaints—making exceptions to policy or working out some special accommodation—rather than deal with the source of the problems that affect complainers and the silent alike. Indeed, firms may use grievance mechanisms as an escape valve for angry consumers who might otherwise complain to public authorities or other consumers.

Complaints and grievances may be harbingers of systematic organizational problems that are best addressed through governance. Yet, consumer complaint mechanisms typically do not include adequate provisions for publicizing or analyzing the problem or informing the public about them. Publicizing the kind and number of complaints and appeals for services denied and how they were resolved would spur organizational change. Funding for an independent party—an ombudsman—to prepare summaries and analysis of complaints and disseminate the information would help.

Dissemination of information about complaints to shareholders, prospective members, and the press would create public pressure on managed

care organizations to respond to consumers and would prevent complaints from being buried in obscure files. Voice then would complement exit. Prospective enrollees might choose managed care organizations based on how they addressed complaints, which in turn would encourage management to resolve problems. Members might publish summaries of complaints in a newsletter, informing individuals with similar problems and facilitating the formation of groups to address common concerns. State insurance departments could provide more intelligent oversight of managed care organizations.

Consumers are often reluctant to complain or file grievances, especially for medical care. One study found that only one-third of consumers with complaints voiced them, complaints were resolved to the patient's satisfaction only a third of the time, and consumers' complaints in medicine were resolved less satisfactorily than 10 of 11 service categories surveyed. To cope with the reluctance of patients to complain, independent parties should conduct surveys of health care consumers and publicize the results. Independent parties are more apt to design their surveys in ways that will reveal critical comments. Their surveys also are more likely to reveal unsuspected problems, allow comparison across health plans, and identify flaws undetected by a formal grievance process.

Governance. Not-for-profit health care organizations are governed by boards that broadly represent the community, including consumers. To be sure, trustees in not-for-profits are usually nominated and chosen by management, which makes them less than ideal representatives of consumers. But although some not-for-profits behave like for-profits, many have pursued community missions and interests that a profit-oriented organization would probably not have undertaken. With for-profit managed care organizations growing in number and size, even this indirect form of consumer participation in governance is fading.

In light of problems with current health care markets and the disillusionment with traditional governmental regulation, consumer participation in governance ought to get another look. Since owners can govern, consumers might form cooperatives to own managed care organizations (or jointly own them with other groups) and elect their own trustees and management. Coops could require consumer approval for key management choices and strategic planning. The Group Health Cooperative of Puget Sound is an example. Founded in 1947 as a cooperative jointly owned by physicians and consumers, it now serves more than half a million members and is considered an exemplary HMO with a consumer orientation.

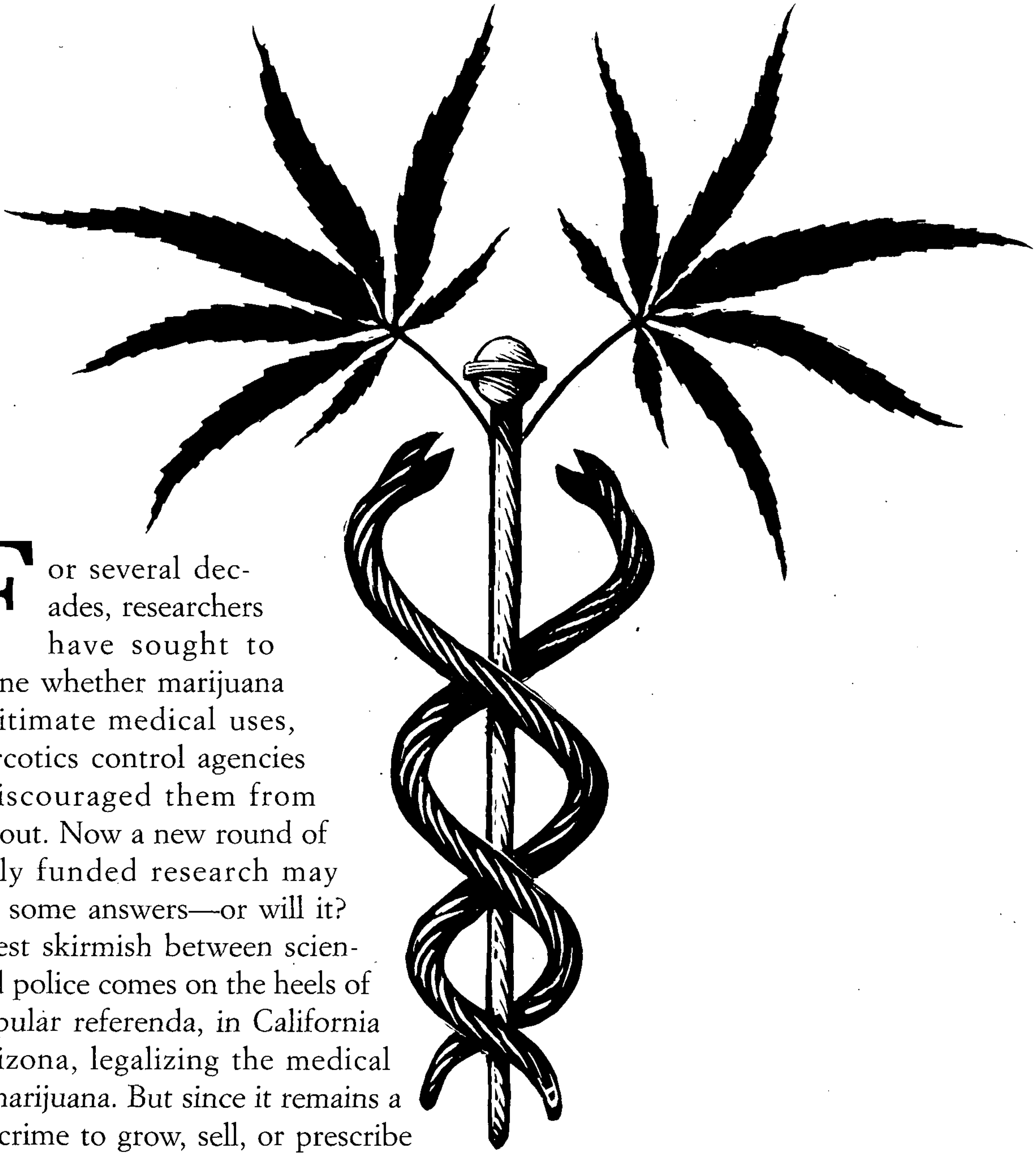
Nevertheless, maintaining consumer involvement is difficult, even in cooperatives. Today, about 6 percent of individuals insured by Group Health are coop members with voting rights. Voting in elections has been around 5 percent for most of the last decade, but because of controversial issues in the last two years turnout has been around 15 percent. Since 1989 less than 1 percent have attended the annual meetings that determine what goes on the ballot. Most consumers simply do not have the time or inclination to become involved in governance. Consumers who attempted to start a cooperative HMO today would face immense hurdles, particularly raising capital and obtaining contracts with large firms. Even Group Health has had to form an alliance with Kaiser Permanente to be able to compete for contracts with multistate employers.

An option for publicly owned managed care organizations is to establish elected consumer councils to provide continuing advice and feedback without formal authority to make management decisions. Councils could express their views on issues that affect members and work with management to improve the organization's performance.

To be sure, resort to consumer voice in managed care organizations would often be cumbersome and annoying to those in charge and those who exercise it. But the regulatory oversight and micromanagement that follow the public outrage at such problems as drive-through deliveries and gag rules may ultimately be even more costly and burdensome. Building voice into managed care organizations can help build stronger organizations by putting managers in touch with the experience and desires of their customers, the patients. If those customers become sufficiently discontented, they will eventually call on legislatures to act on their behalf. The spate of consumer protection legislation regulating managed care suggests that the industry will face increasing constraints. Those who claim that increased consumer voice is impractical should contemplate the alternatives.□

GRASSROOTS MEDICINE

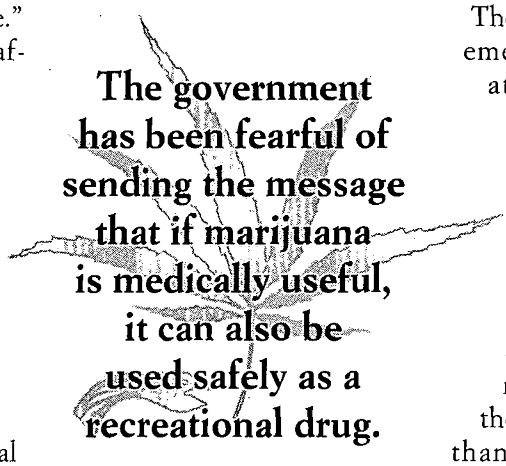
BY DAVID M. FINE



For several decades, researchers have sought to determine whether marijuana has legitimate medical uses, and narcotics control agencies have discouraged them from finding out. Now a new round of federally funded research may provide some answers—or will it? The latest skirmish between scientists and police comes on the heels of two popular referenda, in California and Arizona, legalizing the medical use of marijuana. But since it remains a federal crime to grow, sell, or prescribe cannabis, the referenda have created only a legal morass.

Barry McCaffrey, director of the White House Office of National Drug Control Policy, derided the propositions as "hoax referendums," and insisted that voters had been "duped" by deceitful ad campaigns whose real intent was to legalize drugs. Attorney General Janet Reno announced that prescribing or recommending marijuana was still a violation of federal law, and that any doctors who did so could be prosecuted and lose their license to prescribe all drugs regulated by the Drug Enforcement Administration (DEA).

However, the medical use of marijuana has been gaining respectability. Several states have research programs of their own and some governors, including Republican William Weld of Massachusetts, openly endorse medical legalization. The editor of the prestigious *New England Journal of Medicine*, Jerome Kassirer, lambasted the Clinton administration in an editorial entitled "Federal Foolishness and Marijuana" that received national attention. "To prohibit physicians from alleviating suffering by prescribing marijuana for seriously ill patients," Kassirer wrote, "is misguided, heavy-handed, and inhumane."



The government has been fearful of sending the message that if marijuana is medically useful, it can also be used safely as a recreational drug.

In January, Director McCaffrey, finding himself knee-deep in a debate in which he was little qualified to participate, tried to defuse criticism with an announcement that the Institute of Medicine (IOM) would be given $1 million to conduct an 18-month review of the current literature on marijuana. Later that month Harold Varmus, director of the National Institutes of Health (NIH), announced that the NIH would convene a workshop on the medical utility of marijuana. "We have no rationale for not looking into it," Dr. Varmus said in a phone interview.

But the IOM conducted a similar study back in 1982 and issued a report entitled "Marijuana and Health," concluding that "Marijuana and its derivatives or analogues might be useful in the treatment of glaucoma, of nausea and vomiting brought on by cancer chemotherapy, and of asthma. . . ." A review of the existing literature, as Kassirer pointed out, will likely be inconclusive because no definitive study has been done. The new IOM review, Kassirer said in an interview, "was a political maneuver designed to move the debate off center stage—it probably could be done in 18 days."

In February, the NIH held its workshop, organized by the National Institute on Drug Abuse (NIDA), and workshop participants initially promised to submit their recommendations for further research to Varmus by the end of March. But as this article goes to press in mid-June, three months have passed and the recommendations have yet to be submitted.

Ever since the 1930s and the era of "Reefer Madness," when marijuana acquired both a countercultural stigma and allure, the federal government has resisted attempts to legalize marijuana for medical purposes—both by inhibiting research and by restricting access to the drug. The government has been fearful of sending the message that if marijuana is medically useful, it also can be used safely as a recreational drug. The scientific issue is unresolved, but nonetheless closed.

The medical marijuana movement emerged with the rise of recreational marijuana use in the 1960s. Marijuana had long been known to promote appetite, and a few studies in the first half of the twentieth century showed that it aided in alleviating nausea. Many chemotherapy patients found that smoking marijuana not only relieved their nausea and vomiting better than any of the legally available medications, but also enhanced appetite and relieved anxiety. For many, the relief from smoking pot was so strikingly better than from the use of Compazine, the anti-nauseant of choice, that word quickly spread among patients and doctors and then on to legislators.

In a 1980 congressional hearing titled "Health Consequences of Marijuana Abuse: Recent Findings and the Therapeutic Uses of Marijuana and the Use of Heroin to Reduce Pain," two prominent oncologists—Steven Sallan, then clinical director of pediatric oncology at the Sidney Farber Cancer Institute, and Solomon Garb, president of the medical staff at the AMC Cancer Research

Center in Lakewood, Colorado—and others attested to the medical utility of both smokable marijuana and its primary active ingredient, delta-9-THC. They also testified to the difficulties in obtaining the drugs to conduct research: While anyone could buy marijuana on the street on any given day, Garb had to wait seven months for his research supply and knew others who had waited up to two years.

However, marijuana remained a Schedule I drug—a substance with potential for abuse and no medical uses. Despite a number of petitions to move marijuana to Schedule II, the DEA refused even to hold a public hearing on the issue. So while the federal government resisted, states took the initiative. By the late 1980s, 34 states had passed some form of medical marijuana legislation. Several states organized marijuana research programs so they could legitimately obtain synthetic THC—and in a few cases, marijuana—from the federal government, for suffering patients. Results from studies, though not rigorously scientific, conducted in New Mexico, Tennessee, New York, and elsewhere, found that smokable marijuana and THC outperformed the best available prescription drugs, reporting success rates close to 90 percent; anecdotal evidence suggested that smoked marijuana was more effective than Marinol, the synthetic THC pill.

Finally, in 1985 the coalition of doctors, patients, and marijuana activists persuaded the Department of Health and Human Services to move Marinol to Schedule II, making it legally available by prescription to patients. Soon after, the DEA announced that public hearings on the rescheduling of marijuana itself would finally be held. Those hearings lasted two years and culminated in the recommendation of DEA Administrative Law Judge Francis L. Young in 1988, who wrote that

> it is unrealistic and unreasonable to require unanimity of opinion on the question confronting us. For the reasons there indicated, acceptance [of marijuana having a medical use] by a significant minority of doctors is all that can reasonably be required. This record makes it abundantly clear that such acceptance exists in the United States. . . . One must reasonably conclude that there is accepted safety for use of marijuana under medical supervision.

But the DEA administrator did not act on this recommendation and marijuana remained in Schedule I.

The pro-legalization National Organization for the Reform of Marijuana Laws (NORML) petitioned the DEA to reschedule marijuana for review again in 1992. Denying this petition, DEA Administrator Robert Bonner wrote in the *Federal Register*, "Our nation's top cancer experts reject marijuana for medical use." To support his claim, he cited the testimony of David S. Ettinger, a professor of medicine at Johns Hopkins University School of Medicine and "nationally respected cancer expert," who said: "There is no indication that marijuana is effective in treating nausea and vomiting resulting from radiation treatment or other causes. No legitimate studies have been conducted which make such conclusions."

Bonner thus concluded, "Not one nationally recognized cancer expert could be found to testify on marijuana's behalf." But in a recent phone interview, Ettinger said he had changed his position. He now believes that in

cases of intractable nausea "smoking marijuana is reasonable" and that there are "patients for whom therapies don't work and in that situation anything is worth trying." He also said a study should be conducted comparing the efficacy of smoked marijuana to Marinol.

From the late 1980s up to the present, the federal government has appeared content to close the book on the medical marijuana question, inhibiting any attempts at further research of its medical utility, and limiting research to marijuana's negative effects. In 1994 Dr. Donald Abrams, a California AIDS specialist, submitted a research proposal to compare smokable marijuana and Marinol because, he said, "we have 1,100 AIDS patients in the Bay Area using marijuana [on their own]." Abrams's draft proposal did not pass peer review, but the FDA helped Abrams develop a revised proposal, which was approved by several California research committees and submitted in August 1994. After a delay of nine months, Abrams received a letter from Dr. Alan Leshner, director of the NIDA, turning down the proposal and leaving no room for further negotiation over revisions. "As an AIDS investigator who has worked closely with the National Institutes of Health and the U.S. Food and Drug Administration for the past 14 years of this epidemic, I must tell you that dealing with your institute has been the worst experience of my career!" Abrams replied.

Having spent decades branding marijuana a killer weed, the government is caught in its own rhetoric.

Polls show broad support for medicalization. An ABC/Discovery Channel nationwide poll conducted in May found that 69 percent of respondents favored permitting doctors to prescribe marijuana. Now, after several years of relative quiet, states and local organizations are again pursuing the issue of medical marijuana. The California Medical Association recently backed a bill in May that would provide $6 million for researching the medical benefits of marijuana, and Americans for Medical Rights is gearing up to get medical marijuana ballots placed in a half dozen states for 1998. In addition to the California and Arizona referenda, the state governments of Massachusetts and Washington are creating programs to distribute marijuana to qualifying patients, though of course these programs are contingent on federal approval. In a sense, these could be test cases, signaling whether federal health officials will keep an open mind about the potential medical benefits of cannabis.

Raising the Hurdle

In the past, the DEA argued that marijuana had no accepted medical use. Now the government has altered that argument subtly, raising the hurdle for a revision in its policy. Director McCaffrey, in testimony December 2, 1996, before the Senate Judiciary Committee, stated, "There is no scientifically sound evidence that smoked marijuana is *medically superior to currently available therapies* [emphasis added]."

There are, in fact, some new anti-nausea treatments that may provide relief comparable or superior to marijuana. For example, new anti-emetic drugs such as Ondansetron and Kytril (trade names), are administered to patients intravenously, and work well. But they are difficult to administer and are astronomically expensive. In tablet form, for outpatient chemotherapy, Kytril retails for around $86 for a daily two-milligram dose. Legal marijuana would cost just a few cents a dose. Moreover, it is not FDA policy to disallow one treatment simply because another, more expensive or elaborate one is available. Dr. Robert Temple, associate director for medical policy in the Center for Drug Evaluation and Research at the FDA, who also attended the NIH workshop, told the *New York Times*, "FDA approval does not require that any [new] drug be better than, or even as good as, an existing drug." Such an action would be equivalent to the FDA denying approval to, say, Pepcid, because Tagamet is a sufficient acid-blocking drug.

Other Schedule I drugs have been rescheduled because they provided relatively minor increased flexibility or improvement in treatment. LAAM (L-alpha-acetylmethodol), a drug now used with or in place of methadone to treat heroin addicts, was recently moved from Schedule I to II because it

can be taken every other day compared to the required daily prescription of methadone. This allows recovering addicts to use the day in the middle for counseling.

Many AIDS patients suffer from AIDS wasting syndrome, during which they are so sick they cannot eat. Chemotherapy and radiation-treatment patients often suffer from extreme nausea and vomiting. All of these patients might be candidates for marijuana therapy, to promote appetite and relieve nausea and vomiting. Many patients smoke marijuana that they obtain illegally because they can control the dosage: The palliative effects occur about 45 minutes faster and the psychoactive effects go away more quickly than when the patients take Marinol. Ironically, the government approved Marinol in part because it seemed less "recreational" than smoked marijuana. But clinically, the psychoactive effects of Marinol characteristically last nearly eight hours, while those of a comparable dose of smoked marijuana generally last between two and four.

Moreover, for patients suffering from extreme nausea and vomiting, the Marinol pill is not practical because they may not be able to retain it. In the 1980 congressional hearing on marijuana, Dr. Steven Sallan testified to the benefits of smoking as a venue for ingesting anti-nausea medication:

> There is no question in my mind that the oral route for an anti-emetic, a pill, is the absolute worst route for the patient who has a lot of anticipatory nausea and vomiting. . . . The smoke route is in some ways ideal. Certainly when we want a drug to be absolutely sure, general anesthesia, we put it on the face, they breathe it across their lungs, it's in their bloodstream immediately.

The medical legalization coalition includes pot-heads, scientists, oncologists, patients, and social reformers.

Dr. Lester Grinspoon, author of *Marihuana: The Forbidden Medicine*, says it may be possible to inhale only the therapeutically effective chemicals of marijuana and leave the tar and carcinogens behind. He attests that marijuana can be heated to a certain point at which the cannabinoids (the pharmacologically effective chemicals) are released, but the plant will not actually burn. "In the future, [patients] will be inhaling the vapors of marijuana," Grinspoon said, if the government allows the technology to be developed. In an April interview in the online magazine *Salon*, Dr. William Beaver, professor of pharmacology at Georgetown and chair of the NIH workshop, mentioned the possibility of developing such a delivery system. Currently, however, paraphernalia laws forbid the production or the sale of marijuana vaporizers.

A Trojan Horse for Legalization?

Is medical marijuana just a stalking horse? It's true that pro-legalization organizations such as NORML play an active role in the medical marijuana movement. Philanthropist George Soros and his Drug Policy Foundation, advocates of general decriminalization, have financially backed medical marijuana initiatives. A February 17 article in the *New Republic*, "The Return of Pot" by Hanna Rosin, also characterized the raison d'être of the medical marijuana movement as general legalization. "The truth about the marijuana movement is . . . blindingly obvious after a day in [Dennis] Peron's club. The movement is . . . primarily about legalization," Rosin wrote. While the movement "may feature billboards of the infirm . . . in the offices of its activists you are more likely to find a different poster, a stoner classic: *The Declaration of Independence and the Constitution Were Written on Hemp Paper.*"

The reality is that the medical legalization coalition includes pot-heads, scientists, oncologists, patients, and social reformers. Bill Zimmerman, who coordinated California's pro-legalization Proposition 215, says, "Some people supporting medical marijuana initiatives are without question using it as an attempt to legalize marijuana. Other people are supporting marijuana policy changes out of a genuine concern for patients. It's a free country." And while Rosin paints a pretty bleak picture of the California marijuana scene—scrawny pot junkies with grimy teeth using excuses of migraine headaches to legitimately obtain their fix—she leaves out biographies of activists like con-

servative notable William F. Buckley, Jr., who found marijuana's medical illegality absurd when his sister preferred it to standard drugs in alleviating the negative affects of her chemotherapy. Ironically, it is marijuana's medical illegality that perpetuates the very cannabis clubs Rosin finds contemptible. Such clubs would largely disappear if marijuana were available by prescription.

One curious footnote to this controversy is that the federal government is currently dispensing smokable marijuana—to eight individuals. The Food and Drug Administration began the Single Patient Investigational New Drug Program (commonly know as compassionate IND) in the mid-1970s. Settling out of court in the case *Randall v. U.S.*, the federal government determined it would provide Robert Randall, who suffered from glaucoma, smokable marijuana legally. Fourteen people in all were admitted to the compassionate IND program before its suspension in 1990 and its closure in 1992. The FDA ended the program due to a deluge of applications—again, the government was worried about the public perception of liberally dispensing the drug. Nonetheless, eight people, beneficiaries of a grandfather clause, continue to receive federal marijuana to this day.

The strongest argument against prescribed marijuana remains the concern that it would remove whatever stigma marijuana retains and thus proliferate recreational usage. Joseph Califano, president of the National Center on Addiction and Substance Abuse (CASA), wrote in a *Washington Post* op-ed attacking medical legalization:

> Our children are at stake here. . . . A state has an enormous interest in protecting children from proposals likely to make drugs such as marijuana, heroin and LSD more acceptable and accessible.

But would making marijuana prescribable do either? The list of dangerous and addictive drugs currently prescribable by physicians is enormous and all of them are tightly controlled by the DEA. Although opiates have been abused for centuries, drugs such as codeine, morphine, and dilaudid are carefully regulated, widely prescribed, and relieve the suffering of millions. The use of cocaine has declined drastically from 5.7 million people in 1985 to 1.4 million in 1994, and the drug is a prescribable Schedule II controlled substance.

At the 1980 congressional hearing, North Carolina Congressman Stephen Neal, the chairman of the task force, responded to similar fears expressed by the NIDA spokesperson in the following testimony:

> I have two teenage children. . . . They are at the prime age for exposure to these drugs. . . . It seems to me, watching them and watching what our government has done over the years, that we have spread a good deal of misinformation . . . and that people, and young people in particular respond very positively to accurate information. . . . I really think that my own kids can understand the difference between a use of a drug for a particular illness and its recreational use. . . . It just doesn't seem reasonable to me we would have to sacrifice the potential for some good use of these drugs . . . it doesn't seem consistent. Not only that, but I think kids will see right through it.

However, for President Clinton and many other elected officials, the question is not so simple.

Having spent decades branding marijuana a killer weed, the government is caught in its own rhetoric. This administration, like previous ones, is fearful that if it softens on the issue of the medical use of marijuana, it risks being labeled soft on drugs. When President Clinton began cutting the drug war budget during his first term, he was soon confronted with harsh criticism from the right—William Bennett wrote in a 1995 congressional testimony, "The Clinton Administration suffers from moral torpor on this issue"—and with claims of increased marijuana use among teens. These factors led Clinton to announce the largest drug war budget ever for 1996. Again in 1997, the United States has appropriated $16 billion for the drug war budget.

It remains to be seen whether the federal government will have the courage to allow scientists to resolve the issue of marijuana's medical use in the face of pot's long-standing cultural stigma. But the government will not depress recreational marijuana use or make progress in the war on hard drugs by denouncing referenda, threatening prosecution of doctors, and blocking legitimate medical research. It will only make it more difficult for severely ill people to relieve their suffering.❑

THE SPEED LIMIT

FACT AND FANCY IN THE GROWTH DEBATE

BY ALAN S. BLINDER

"Say it ain't so, Joe," a young boy is reputed to have implored Shoeless Joe Jackson, the tarnished star of the infamous Chicago "Black Sox" in 1919. That same cry went up in February 1997 when the Council of Economic Advisers, then headed by Joseph Stiglitz, pegged the U.S. economy's long-term growth rate at only 2.3 percent per annum. "Say it ain't so, Joe."

Like the young baseball fan, growth optimists from both the left and the right of the political spectrum do not want harsh realities intruding upon and ruining their dreams. But Joe Jackson couldn't say it wasn't so, because it was. And neither could Joe Stiglitz.

Based on some simple arithmetic that I will display shortly, mainstream economists are exceptionally united right now around the proposition that the trend growth rate of real gross domestic product (GDP) in the United States—the rate at which the unemployment rate neither rises nor falls—is in the 2 percent to 2.5 percent range. In fact, a central aspect of the allegedly sharp "controversy" between the Clinton administration and the Congressional Budget Office (CBO) over the appropriate "economic assumptions" to use in budget projections is whether that growth rate is 2.3 percent or 2.1 percent. (The CBO favors the latter.) That's some controversy.

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Nevertheless, a number of leading politicians, influential business executives, and popular writers refuse to accept this "pessimistic" conclusion. We could grow much faster, they insist, if only the government would pursue more growth-oriented policies. Actually, the argument comes in two distinct variants, which often get confused but ought to be kept separate.

One variant makes a cyclical claim: that overly tight monetary policies are holding back the economy. According to critics from both the left and the right, a niggardly Federal Reserve keeps pulling the U.S. economy up short of its potential by hitting the monetary brakes prematurely, perhaps because it is seeing inflationary ghosts. The implication is that there is considerable slack left in the system, so we could grow much faster *for a while* by bringing unused resources into production.

The second variant makes a claim about long-run growth instead: that trend growth either is or could be much faster than the conventionally estimated 2 to 2.5 percent. We could exceed this false "speed limit" *forever*, the argument goes, by adopting more capitalist-friendly tax and regulatory policies. Normally, this critique comes from the right. In the 1996 presidential campaign, for example, Bob Dole claimed that his economic plan, which featured a large income tax cut, would boost trend growth to 3.5 percent per year. His running mate, Jack Kemp, went even further, asserting that those policies would double the growth rate. Double? To 5 percent? Now there's a real Shoeless Joe Jackson fan.

Mainstream economists dismiss both of these arguments as mostly poppycock. This article explains why. But let me first state unequivocally that no one wishes more than I that both arguments were true. I also wish the Dodgers would return to Brooklyn and that the world were free of want. Unfortunately, none of these lovely things is in the offing.

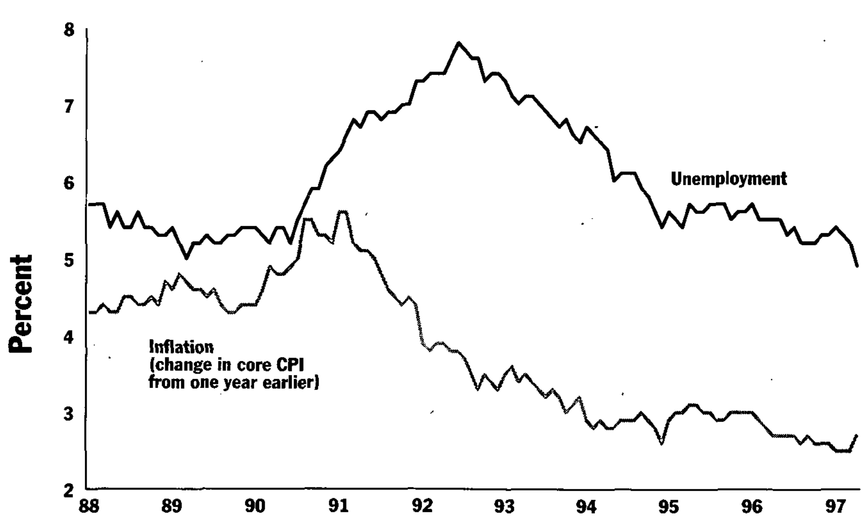
Faster in the Short Run?

First, the cyclical argument. On this view, lower interest rates could boost growth for a while without raising inflation, so the Fed should ease up and give the economy more running room. Is it true? Let's examine some pertinent facts.

The unemployment rate is by no means a perfect indicator of aggregate pressure on capacity, but it is about as good as we have. (Essentially the same story could be told using the Federal Reserve's capacity utilization index instead.) It declined from 7.7 percent in June 1992 to 5.8 percent by September 1994, and then fluctuated within a narrow range between 5.8 percent and 5.4 percent until June 1996, when it dropped another notch. Unemployment averaged just 5.3 percent between then and March 1997. The April and May 1997 readings came in below 5 percent, the lowest levels since 1973.

Let's consider what happened to inflation during each of those three episodes. From June 1992 through August 1994, the

Inflation and Unemployment Rates Over the Past Decade



January 1988–April 1997 (Monthly)

Source: Bureau of Labor Statistics.

unemployment rate was continuously above 6 percent, averaging 6.8 percent, and inflation drifted lower. (See "Inflation and Unemployment Rates Over the Past Decade," page 58.) Then, from the summer of 1994 to the summer of 1996, unemployment averaged 5.6 percent, and inflation remained remarkably stable. That experience nominated 5.6 percent as an excellent estimate of the so-called NAIRU (an awful acronym for the "Non-Accelerating Inflation Rate of Unemployment"—in plain English, the rate at which inflation neither rises nor falls).

Since inflation *fell* when unemployment averaged 6.8 percent and *stabilized* when unemployment averaged 5.6 percent, it stands to reason that unemployment much below 5.6 percent should make inflation *rise*. The last time we experienced unemployment that low for a protracted period of time was 1988 to 1990 (as the chart on page 58 shows). The unemployment rate first dipped below 6 percent in the fall of 1987, fell all the way to 5 percent by March 1989, and did not climb back to 6 percent again until November 1990. During that period, core inflation increased from about 4 percent to about 5.5 percent. Thus the theory seemed to work pretty well.

Very recent experience has, however, been somewhat more favorable than history would suggest—as it has been remarked by many. Specifically, inflation appears to have inched *downward* even as unemployment fell *below* 5.4 percent. But this period is less than a year long—far too short to draw any conclusions, given the sluggish response of inflation to tight markets. For example, a standard rule of thumb suggests that if the NAIRU is 5.6 percent, one year of 5.2 percent unemployment should boost the inflation rate by 0.2 percent. Such a minuscule rise in inflation is simply too small to pick up in the data. And furthermore, improvements in the Consumer Price Index (CPI) have reduced measured inflation at precisely the same time. To be sure, recent experience does offer some hope that the NAIRU might be below 5.5 percent. But to conclude so at this point would be premature.

Growth optimists do not want harsh realities to ruin their dreams. But the evidence shows long-term growth is in the 2 percent to 2.5 percent range.

Finally, let us ask what the miserly Fed was doing while all this was going on. During the roughly two-year period of 5.6 percent unemployment—a number that most observers in 1994 thought to be below the NAIRU—the Fed first raised its overnight interest rate by 1.25 percentage points (in November 1994 and February 1995) to slow the economy, and then lowered it by 0.75 percentage points (in July 1995, December 1995, and January 1996) to give the economy a little boost. Thereafter, until March 1997, it sat on its hands while the unemployment rate not only remained low but actually drifted down. That does not sound like Scrooge-like behavior to me. Rather, the Fed was cautiously (and perhaps accidentally) probing how low the NAIRU might be.

Was the Fed really holding growth below its potential? Remember, trend growth is defined as the rate that is just enough to absorb the normal year-to-year increase in the labor force, leaving the unemployment rate neither rising nor falling. Let's look at the numbers. From the third quarter of 1994 through the first quarter of 1997, the annual growth rate of real GDP averaged 2.6 percent. During those two and a half years, the unemployment rate *dropped* by about 0.7 percent—which means that 2.6 percent growth is somewhat *above* trend.

To claim that we could have grown much faster without higher inflation is to claim that unemployment could have fallen much more than it did without rising inflation. Again, let's look at the numbers. Had growth averaged 3.5 percent instead of 2.6 percent, the unemployment rate would now be below 4 percent—a rate last seen during the Vietnam War inflation. No serious student of the U.S. labor market believes we have this much unutilized labor. Indeed, anecdotal evidence from around the country supports the conventional view that labor markets are now very tight.

In sum, it is highly unlikely that our economy has much running room before it reaches its normal, full-employment capacity. In fact, it is more likely that we have already passed this benchmark. Do economists know that with 100 percent certainty? Certainly not; this is not physics. But, if you are planning to bet against it, insist on long odds.

The Long-Term Prospect

Now let's turn to the bigger issue: estimates of the economy's long-run growth trend. To begin with a "top-down" estimate, recall that unemployment *fell* while GDP growth averaged 2.6 percent. That means that the trend must be below 2.6 percent per annum. How much below? The simplest way to estimate the trend is to calculate real GDP growth between any two years with equal unemployment rates. (Quarters will also do, but using years rather than quarters helps smooth over blips in the data.) The most recent such example is the period from 1990 to 1995. Over that five-year period, real growth averaged 1.9 percent per annum.

A "bottom-up" calculation yields a similar estimate. The laws of arithmetic dictate that you get the trend growth rate of output by adding up the growth rates of labor input and labor's productivity—that is, output per hour of work. Conventional estimates place each number around 1.1 percent per annum. So the estimated growth trend is 2.2 percent, give or take a tenth or two.

Where could such a calculation go wrong? There cannot be much dispute about the trend growth rate of the labor force, which is known within a small margin of error. Notice, by the way, that the labor force expanded about 1.7 percent annually in the 1980s and 2.7 percent in the 1970s—which is one reason why we can no longer grow as fast as we did then. (The huge expansion of female labor force participation, for example, cannot be repeated.)

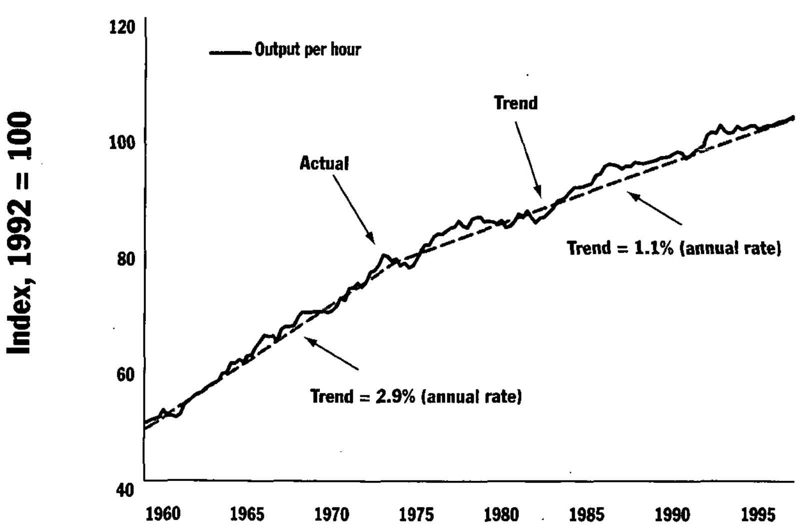
So the argument between a 2.2 percent growth trend and a 3.5 percent growth trend cannot be about labor force. It must be about productivity growth. And so it is. The evidence for the mainstream view is neatly summarized in "The Slowdown in Productivity Growth" (below), which is adapted from the 1997 *Economic Report of the President.* It shows that output per hour in the U.S business sector grew much more slowly after 1973 than before—just 1.1 percent per annum for 23 years. A prudent forecaster would extrapolate that behavior, not presume that a sharp upsurge in productivity growth is imminent.

Here the growth optimists rise to object. "Wait a minute," they say. "With all the evident technological miracles in computers and telecommunications, and with all the industrial restructuring, how can you expect us to believe that productivity growth in the U.S. is just 1.1 percent per annum? The measurements must be wrong." I'd like to answer this objection at two levels, for in one sense I agree and in another sense I disagree.

The disagreement is more important. Suppose our trend productivity growth rate—under current official measurements—was really much higher than 1.1 percent. For concreteness, let's use the Dole-Kemp estimate of 2.4 percent. In that case, GDP growth of 1.9 percent per year from 1990 to

The Slowdown in Productivity Growth

Output per hour of work in the U.S. business sector.



Source: U.S. Department of Labor.

1995 should have been accomplished with *decreasing* use of labor input because output per hour grew faster than output. In fact, payroll employment expanded by almost eight million jobs. That's quite an error! Another way to make the same point is this: If actual growth over these five years really fell short of trend growth by 1.6 percent per year (1.9 percent instead of 3.5 percent), the unemployment rate should have risen by about 4 percentage points over this period. In fact, it was unchanged.

But there is a sense in which the growth optimists may be right: The official data may badly underestimate productivity growth. Government statistics want us to believe that what economists call total factor productivity—the increment to output you get from skills, technology, and managerial efficiency, without the need to apply any additional inputs—has not grown at all since about 1977. That is simply not believable.

Readers of *The American Prospect* will be aware of the recent debate over the so-called bias in the Consumer Price Index. Arguments that the CPI overstates inflation are compelling, although the magnitude of the bias is hotly disputed. Fewer people seem to have noticed, however, that any *upward* bias in measuring inflation implies a corresponding *downward* bias in measuring real growth. And since labor input is measured fairly precisely, the entire measurement error shows up in productivity. For example, if inflation is overestimated by 1 percent per year, then real growth may actually be a full percentage point higher than recorded in the official statistics—say, 3 percent instead of 2 percent.

Official data may badly underestimate productivity growth. But if so, we are growing faster than the data say, and policy needn't change.

In this case, however, the growth optimists who rail at the Fed for restraining the economy are still wrong. Critics are confused on two points.

First, errors in measuring productivity affect data on *actual* and *potential* GDP equally. So they carry no implication that the economy has more spare capacity than we think. It is not that we should be growing faster than we are; it is that we are in fact growing faster than the data say.

Second, those who argue that the U.S. economy has experienced a recent upsurge in productivity growth must explain why the measurement error has grown much worse in the last year or two, for the official data show no such upsurge. No one has yet offered such an explanation.

Why Doesn't Everyone Agree?

The evidence I have just presented is not secret; it is available to anyone who looks. Why, then, do intelligent people ranging from Bob Dole and Jack Kemp on the right through Jerry Jasinowski in the center to Lester Thurow and Felix Rohatyn on the left argue otherwise? I have been able to think of six reasons. Three of them are measurement issues.

First, as just noted, the likely overestimation of inflation means that real growth has probably been underestimated. We may well have been growing at 3 percent during the 1990s.

Second, the government altered its measurement system at the start of 1996, adopting what the green-eyeshade crowd calls "chain-weighted" GDP. Through the end of 1995, the government calculated real GDP by valuing all goods and services at 1987 prices—which vastly overpriced computers, for example. Chain-weighted GDP uses more recent market prices, thereby putting less weight on computers. That naturally produces slower *measured* growth even with no change in the real economy. The new measurement system probably reduced the 1996 growth rate by about three-quarters of a percentage point.

Third, our antiquated statistical system lavishes far too much attention on the manufacturing sector—which accounts for only about 20 percent of GDP. Productivity performance in manufacturing has indeed been excellent in recent years. No argument there. The problems reside in the other 80 percent of the economy, which is where most of us work.

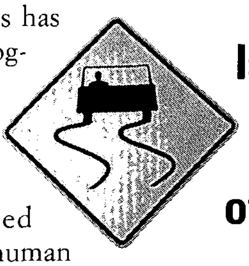
Fourth, biases in reporting lead to what I call "the tyranny of the selective anecdote." The business press—like businesses themselves—tends to trumpet success stories and bury failures. When leaders of particular successful companies tell me that they have achieved dramatic productivity gains, I believe them. But the U.S. economy is not

BusinessWeek cover stories writ large. Some companies downsize and fail. Some companies automate with catastrophic results. That's why we need economy-wide data.

Fifth, people tend to forget about the reallocation of labor that accompanies downsizing. When some large corporation restructures to produce the same output with far less labor, its productivity rises dramatically. But the displaced workers then must seek jobs elsewhere. If they find employment in firms with much lower value-added per worker, then economy-wide productivity may not rise much despite the vaunted productivity miracles.

Finally, I come to what may be the biggest puzzle of them all—and perhaps the biggest reason for the "Say it ain't so, Joe" attitude: advances in computers, and in information technology (IT) more generally. As Robert Solow has put it, "The computer is everywhere except in the productivity statistics." Why not?

The pace of technological advance in electronics has indeed been mind-boggling. Businesses now communicate with lightning speed. Some serve their customers via automated devices rather than human beings—ATMs, voice mail, and sales over the Internet are common examples. Computerization has also revolutionized some factory floors and the inventory management practices of many companies. And so on. All this is beyond dispute.



Is this new computerized world a vastly more productive world? The official statistics say no.

But is this new computerized world a vastly more *productive* world—in the narrow sense of producing more GDP per hour of labor? The official statistics say no. In fact, the timing of the productivity slowdown shown in "The Slowdown in Productivity Growth" (page 60) corresponds roughly to the invention of the personal computer. Furthermore, when you examine the industry-by-industry data, some of the worst productivity performances have been turned in where you might expect innovations in IT to have paid the richest dividends. What's going on here?

No one knows for sure, but my tentative answer is: Don't be taken in by the hyper-hype. Sure, I now can surf the Net, send and receive e-mail in seconds, and have more computing power on my desk than ever before. But has any of this made me produce more GDP per hour of work? Don't forget that rapid turnover of hardware and software keeps us perpetually in the learning mode, that people spend countless hours mindlessly exploring the Internet and playing amusing computer games, and that most of us suffer more from information overload than from information shortage. Perhaps most important, the human brain has not advanced apace with the microprocessor.

A productivity miracle based on the computer may be just around the corner. Perhaps. But, if so, it is around the *next* corner, not the *last* one.

What Intelligent Policy Can Do

One final thought. This article is intended as a reality check, not as a counsel of despair. Our economy's long-run growth trend, be it 2.1 percent, 2.3 percent, or 2.5 percent per year, is not a constant of nature. Growth can be enhanced by intelligent economic policies and damaged by foolish ones.

For example, the principal rationale for reducing the government budget deficit is not to pay homage to our Puritan ancestors, but to spur capital formation and thus accelerate economic growth. Similarly, I have long urged greater investments in education and training as a pro-growth policy. And the basic case for government-supported research and development is that R&D is the mainspring of total factor productivity growth. Even well-designed tax, regulatory, and trade policies can make modest and transitory contributions to growth.

Many such policies are well worth doing. An artfully chosen combination might conceivably add one-quarter or even one-half of a percentage point to the growth rate for a time, which would certainly be a notable achievement. But with economic growth, as with all things, you should be wary of fast-talking purveyors of miracle cures. Nothing—I repeat, nothing—that economists know about growth gives us a recipe for adding a percentage point or more to the nation's growth rate on a sustained basis. Much as we might wish otherwise, it just ain't so.❑

WHY WE *CAN* GROW FASTER

BY BARRY BLUESTONE AND BENNETT HARRISON

From the early-nineteenth-century introduction of steam power through the dawning of the age of the microchip in the post-World War II era, real economic growth in America averaged 3.8 percent per year. That meant economic output doubled roughly every 19 years. Then after the 1970s, growth collapsed. During the 1980s, growth averaged just 2.7 percent per year and since 1989 only about 2 percent. At that rate, it will take nearly 36 years for gross domestic product (GDP) to double again.

Despite this performance at well below historical trend rates, many mainstream economists and the journalists who follow them have concluded that the new lower growth rate is inevitable and more or less permanent. Economist Paul Krugman suggests that we now live in an "age of diminished expectations" and we had better get used to it. The Council

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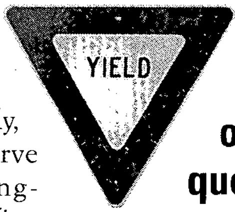
of Economic Advisers (CEA) forecasts 2.3 percent growth through 2002. Generally, both the Federal Reserve Board and the Congressional Budget Office agree with this assessment. Popularizing this theme, Jeffrey Madrick's 1995 book concluded that we had reached *The End of Affluence*.



Pessimism about growth rates is based on sound arithmetic, but questionable assumptions.

This pessimism about future growth rates is predicated on unassailable arithmetic but, as we shall see, questionable assumptions. Mathematically, the rate of economic growth cannot exceed the rate of labor force growth plus the rate of growth in labor productivity—that is, total hours worked times output per hour worked. This tautology sets the speed limit on how fast an economy can grow; if we exceed the economy's growth capacity, we will reap only inflation.

Typical forecasts of economic growth—the CEA's, for example—predict that the labor force will grow at about 1.2 percent per year at least through 2002 while productivity growth will creep along at about 1.2 percent a year as well. Adding these together (and subtracting a tenth of a point for the expected slowdown in growth due to smaller government outlays and a smaller farm sector) yields the "official" 2.3 percent growth rate forecast that pretty much everyone has come to accept as the most likely future scenario. Optimists predict that with a little luck we could push it to 2.5 percent. The bridge to the twenty-first century apparently is being built without a high-speed lane.

Small differences in growth rates over a sustained period yield huge differences in our standard of living. Whether the economy can grow at 2.3 percent or, say, 3 percent a year may seem a quibble, but that annual seven-tenths of a percent is hardly trivial. Between now and 2007, the total difference between these two rates is $3.1 *trillion* worth of GDP—an average of more than $300 billion a year. That $3.1 trillion could solve the Social Security "crisis," deal with the federal deficit, and represent a large down payment on rebuilding the cities and cleaning up the environment—not to mention what it could mean for employment, wages, and family incomes. Misreading the economy's speed limit has its costs. This is particularly true if investors temper their own expectations of growth based on "official" forecasts and limit their investments in new technology and in new plants and equipment believing that any larger investment will simply leave their capital stock idle in the face of slow-growing demand.

It may seem prudent to "diminish our expectations," but there is the distinct danger that limiting our expectations may become a self-fulfilling prophecy. In this article, we suggest why. Instead of forecasting growth rates, the Federal Reserve Board, the White House, the Congressional Budget Office, and the economists on whom these bodies rely for advice may be inadvertently setting growth rates. It would surely add credibility to the economics profession if its slow-growth forecast turned out to be accurate—but it would not be very good for everyone else!

Who Works, and Why

We think the economy can grow faster—provided the growth prospects are not sabotaged. There is considerable evidence that the mainstream forecasts of both *labor supply* and *output per worker* are too pessimistic, given emerging underlying forces in the economy. The supply of labor and the potential growth of productivity are both more elastic than the standard view admits. Moreover, the conventional wisdom relies too heavily on an outmoded understanding of how technology and growth are connected.

Consider labor supply. We may not like all of the social consequences of an increasingly "overworked" America, but more Americans are working, and they are working longer hours. We are finding that the labor force is not tapped out, but is ready to work more when jobs are there. The economist's old homily, Say's Law, which says that "supply creates its own demand," has been stood on its head. Now, increased demand for labor coaxes out a new source of labor supply that can contribute to faster growth. This ups the economy's speed limit a notch.

The increased labor supply shows up in two forms. One is an increase in the labor force participation rate—the fraction of the population that works or seeks work. [See "The End of Unemployment?" page 71.] After growing for decades, the labor force participation rate flattened out in the late 1980s and early 1990s. Economists and demographers took this to mean that with women's participation reaching a peak and older workers retiring earlier, the overall labor force participation rate had reached a plateau.

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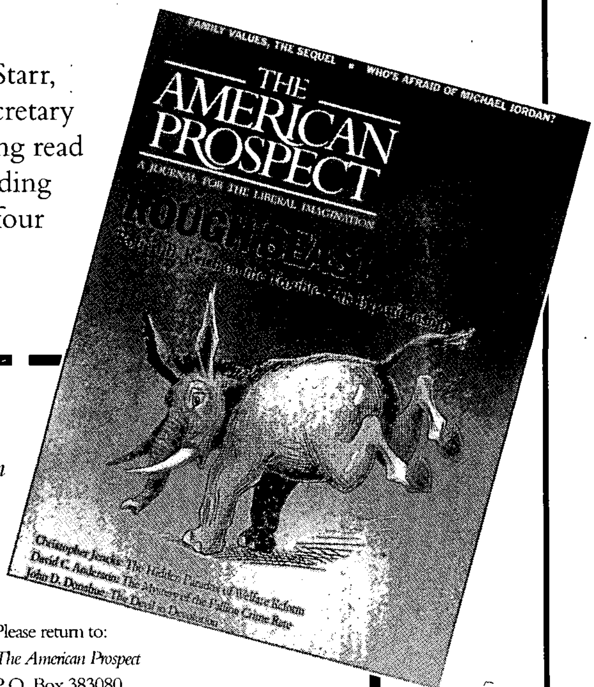

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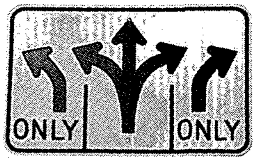
Between 1989 and 1994, the rate was essentially flat at 66.6 percent. But lo and behold, since 1994 the rate has been on the rise again. By March of this year, the rate was up to 67.3 percent—adding 1.4 million additional workers to the labor pool.



Economic expansion in a high-tech age requires continuous public investment.

This resurgence in part reflects an apparent end to four decades of decline in labor force participation rates among workers over age 55. With improvements in health and changes in law that permit older workers to keep more of their Social Security income while continuing to work, more older Americans are choosing to remain employed in either full-time or part-time jobs. Moreover, it appears that younger men who had "disappeared" from the official labor force—as many as six million according to Lester Thurow ["The Crusade That's Killing Prosperity," *TAP*, March-April 1996]—are beginning to reenter in response to better job opportunities. In other words, faster growth and more job opportunities coax out more workers; labor supply is not fixed by demographics. Extra labor supply from these sources will offset the projected decline in 25- to 34-year-olds over the next decade, the legacy of the baby bust generation. Thus, assuming adequate labor demand—some-

Test the Limit

BY JAMES K. GALBRAITH

It has been amusing to watch the natural rate of unemployment come down. Two years ago, the community of respectable economists held—though with exceptions including Robert Eisner of Northwestern, Ray Fair at Yale, Harvard's James Medoff, and myself—that 6 percent unemployment was as low as the economy could go without triggering inflation. This meant, in turn, that sustainable economic growth could proceed only at the long-term rate of labor force growth plus the average rate of improvement of the productivity of labor in the recent past, for a growth speed limit of, at the highest, 2.5 percent. Any attempt to push gross domestic product (GDP) growth any higher would be inflationary, or so we were constantly told.

But since the end of 1995, real GDP growth has averaged 3.6 percent annually. Employment growth and labor force growth were both about double what was expected; productivity growth was pretty much on target. Unemployment, meanwhile, has declined to below 5 percent. And while consumer price inflation rose slightly in 1996—an increase due entirely to rising food and energy prices rather than to any movement of wages—the overall rate of inflation remained negligibly low. Confronted with these facts, the current respectable consensus is that the natural rate of unemployment has fallen to 5.5 percent or 5 percent, or maybe even lower. Those of us who think the very idea of a natural rate should be junked have been encouraged as never before.

But what next? Natural rate devotees remain cautious. For them, the metaphor of a labor market equilibrium, where labor supply just balances labor demand, is too strong; they cannot give it up. True, the equilibrium wasn't 6 percent: We passed that point and disaster didn't happen. And it probably wasn't 5.5 percent: We passed that point too, and again no disaster happened. But it must be somewhere, they think, and we have only 5 percentage points left to go.

Yet the fact that the natural rate turned out to be less than 6 percent—and even less than 5.5 percent—does not make it more probable that the magic number will prove to be 5 percent. Rather, it raises questions about the concept of the natural rate and about the methods used to calculate it. Maybe the natural rate always has been much lower than respected opinion has thought. Or maybe the whole metaphorical notion of a natural rate is misleading.

We don't know the answers to these questions. The real issue, given our ignorance, is: What should we do? Should we pursue falling unemployment and probe for a limit that may or may not be there?

To natural raters, we are like a blind person standing near a cliff by the sea. We may be perfectly safe five feet back from the edge. We may discover by cautious experiment that we can safely take one step forward. This lesson tempts us to change our attitude toward risk, but prudence should hold us back—just because we can take one step safely toward the edge does not mean that we can safely take two more.

This metaphor accurately expresses the natural raters' position on a policy for growth and employment. It is a coherent metaphor, but does it illuminate our actual situation? In my view, it does not. Maybe we need a new metaphor.

Are we really on a cliff by the sea, poised perilously above the waves and the rocks? Or are we in fact down by the beach, on a gentle slope of soft and agreeable sand? What are the risks of another advance—injury and death, or a little wetting of the feet?

thing that macroeconomic policies at home and coordinated negotiations among countries can promote—the "graying of America" need not mean a decline in the growth rate in labor force participation.

Even more important is the growth in hours worked per worker—a factor that goes undetected in the official labor force participation and employment statistics, since all workers who work at least one hour a week are simply counted as employed. From 1967 through 1982, the average annual hours worked by prime-age workers (age 25-54) declined from about 1,975 to about 1,840. This was primarily the result of women entering the labor force in part-time positions. Since 1982, however, the trend has reversed, so that by 1995 the average work year was back above the 1967 level. Just since 1991, with the expansion of the economy, average hours worked per employee have increased by nearly 3 percent. That is the equivalent of adding 3 percent more workers to the American labor force if the average work effort had remained unchanged at its 1991 level.

That we have been able to drive the unemployment rate down below 5 percent without igniting wage-led inflation is testimony to the fact that there is a good deal of labor supply in the pipeline when labor demand exists to employ it. Because of its construction, the official unemployment rate simply fails to capture it. Of course, at some point the typical workweek and the fraction of the population that works reaches a natural limit. But given healthier senior citizens, women's equal participation in the labor force, welfare-to-work efforts,

And if we do get our feet wet, what will it take to get them dry again?

Cliff or beach? This is an issue we can investigate. The way to approach the question is to examine the history of past forays toward the waves. History teaches clearly on this point: Gradually falling unemployment has never resulted in a rapid slide toward inflationary catastrophe. The process is, at worst, extremely gradual. Estimates by Robert Gordon, a pillar of mainstream thinking on the natural rate and a careful student of the past, confirm this. In an article in the *Journal of Economic Perspectives* earlier this year, Gordon gives a scenario of inflation doubling—to around 6 percent—over eight years, on the assumption that unemployment is kept 1 full percentage point below its estimated equilibrium point. In other words, if the natural rate is in fact 5 percent, then we could enjoy 4 percent unemployment through 2005 without an intolerable increase in the inflation rate. (By that time, of course, the federal budget will have been in balance for more than three years and the Easter Bunny will be President of the United States.)

It is also true that a sudden increase in inflation could happen much sooner—natural rate or no natural rate. A tidal wave, originating in some seismic event in far-off oil fields or elsewhere, could roll in. But in the case of a tidal wave, being five feet back from the water's edge provides no margin of safety.

It therefore makes little difference, from the standpoint of inflation dangers that matter most, whether one pursues full employment or not. The inflation costs of lower unemployment are small, tolerable, and easily reversed if necessary—and that's using pessimistic assumptions. The dangers of an external supply shock, though much greater, are not closely related to the rate of unemployment and cannot be reduced by a slow-growth policy. The lesson to draw is that there is no benefit in failing to pursue full employment.

A second lesson is that the economy is unpredictable in the short run. Those recent high rates of labor force growth and employment growth were not widely predicted and did not result from any policy. But they happened, and had the effect of reconciling higher-than-predicted growth with low rates of wage and price change. Can they continue? Not forever, certainly. But whether they can continue for another year (or three) is simply unknown. To slow the economy now on the assumption that high growth rates cannot continue is to commit a damaging act without justification.

Therefore, at a minimum, policy should do nothing to slow economic growth. Let the economy grow. And if growth slows, policymakers should react quickly by lowering interest rates in an effort to keep progress going. There is certainly no benefit from slower growth and rising unemployment, while the inflationary costs of a stimulative policy in response to evidence of a slowdown are speculative and small.

I happen to think that unemployment can fall another point, to 4 percent, and stay there without disastrous inflation. (Could we go further? Ask me when we get to 4 percent.) I would be particularly confident of this if we had a sensible balanced anti-inflation policy in place—one that did not rely exclusively on raising interest rates and throwing people out of work.

As we think about wading out on that metaphorical beach, some other useful ideas come to mind. To deal with the gentle waves at our feet, a pair of old boots might be helpful. In the 1960s, these were known as "wage-price guideposts" and they helped to keep inflation from accelerating while unemployment fell to below 4 percent. Some new variation on this old-boot theme might be helpful now, preferably one as self-enforcing as possible. And as for the possibility of a tidal shock wave, well, for that you need a boat—or even an ark. But that's another story.❑

and training programs for the conventionally unemployable, labor supply should grow faster than population for some time.

A Productivity Renaissance

The other component of growth—labor productivity—has been the chief culprit in the growth slowdown since the early 1970s. From 1870 through 1973, productivity increased by an average rate of 2.4 percent per year. In the immediate post-World War II era, productivity was absolutely booming—growing more than 3 percent a year. After 1973, productivity growth totally collapsed, for reasons that most economists consider a mystery. (The OPEC oil shock, the demise of the Bretton Woods system, and the high-interest-rate austerity that followed are considered possible suspects.) For a quarter century, productivity has been growing at barely 1 percent a year—a pace even worse than that of the Great Depression. The official projections for economic growth are based on a continuation of this dismal record.

Yet there is good reason to believe that we are on the verge of a productivity renaissance. This is already evident in the manufacturing sector, where productivity growth rates are back up to the levels enjoyed during the postwar glory days. The recent drag on productivity has all been in the service sector of the economy, where most of the growth in the economy is now centered. But even here there is now evidence of a turnaround. From 1989 through 1995, productivity growth for the entire nonfarm business sector of the economy averaged only 0.9 percent per year. Since then, the rate has averaged 1.3 percent—a sizeable improvement. Longer-term historical data suggest that the productivity slump bottomed out in the late 1980s.

More important perhaps than the actual recent numbers is the growing awareness that overall productivity growth has a history of long cycles based on the introduction of new technologies. This helps to explain the productivity paradox of the information revolution. The work of such economic historians as Paul David, Nathan Rosenberg, Luc Soete, and Chris Freeman, shows that in *every* new technological era—be it led by the introduction of water power, steam power, or electricity—there has been a lag before productivity surged. The decline in productivity growth rates often lasts two or three decades, the time it has taken for each new technology to be "debugged" and diffused.

The computer revolution very likely follows the pattern. If so, we likely have lived through the downside of a technological transformation and we are just about to receive its benefits. For nearly two decades now, we have seen the rapid introduction of new hardware and software as the technology revolution moves toward greater maturity. Every time we have begun to become proficient with new technology, newer hardware and software promises even greater productivity. But it takes time to learn, and during this time productivity growth is flat or even declines. For those who have kept up with the innovations in computer operating systems, think of the time and effort "wasted" in moving from DOS to Windows 3.1 to Windows 95. Just as you were moving up the "learning curve" with one operating system, another one came along and you had to pause while you moved onto the next learning curve. Over the long run, your productivity improved—or will improve—but the process is filled with fits and starts.

Moreover—and here is where mainstream theory really misses the boat—Paul Romer, Richard Nelson, and others have shown persuasively that the productivity dividend from the introduction of any new technological paradigm is fully realized only when all of its complements are in place. The hardware has to work with the software. The skills of the workforce need to be upgraded to utilize it. Old managerial routines that stand in the way have to be replaced. This all takes time—and now appears to be well along. A growing proportion of the workforce is now computer literate. Investments in training are beginning to pay off as more and more workers report that they are using computers and related equipment on the job. The human process of learning by doing is now increasingly routinized.

We have already seen this process flourish in the manufacturing sector. With greater emphasis on user-friendliness, and with the accelerated diffusion of the new easier-to-use technologies in the service sector as well, the productivity promise of the computer and related information-processing equipment is now on the close horizon. This, we believe, helps to explain the bottoming out of the productivity slump and heralds strong positive growth in the near future.

Feedback Loops and Self-Fulfilling Prophesies

Our estimates based on recent trends suggest that we can claim another 0.3 to 0.4 percent growth annually in the labor force over the next decade and another 0.3 to 0.4 percent growth per year in productivity. This means that there is clearly room for the economy to meet a 3 percent annual growth target—the amount necessary to garner that $3.1-trillion GDP bonus.

But we surely will fall short of that goal if public and private policies sabotage growth. Here there is much to *unlearn* from history. Though the Federal Reserve Board has lately allowed unemployment rates to slip below what it once considered a natural floor, there remains a powerful monetary policy bias against faster growth [see "Test the Limit," James K. Galbraith, page 66].

In the stagflation of the 1970s, many economists became convinced that the natural rate of unemployment was an immutable law. But in the 1980s and 1990s, the real trade-off between inflation and unemployment has become more benign due to increased actual and potential competition as a result of increased world trade, the proliferation of offshore production sites (and producers), new technology, changes in the nature of labor markets, and industry deregulation. In fact, the recovery since 1992 has seen the unemployment rate fall from 7.5 percent to 4.9 percent without any increase in inflation whatsoever—a clear case where the facts inconveniently trump received theory. The Fed is nonetheless poised to raise interest rates in the near future if unemployment continues to fall or simply remains below 5 percent.

Such action would not only sabotage growth in the short run; it compromises the potential for long-term growth because of an important feedback loop between monetary policy, the investment climate, and future growth. For private business to continually invest in new capital and new technologies, firms must believe that the output created by the new equipment will actually be sold. Here is another case where Say's Law operates in reverse. If private business believes demand growth will be slowed in the future, it will reduce its current investments accordingly—producing the self-fulfilling prophecy of slow growth. If it expects, on the other hand, that growth will be encouraged by policymakers, then business will more likely make the invest-

ments that will feed back in the form of higher productivity and faster growth. The prospect of more demand for products produces the supply of investment and innovation needed to make that prospect come true. If the monetary authorities signal that 2.3 or 2.5 percent growth is the most we can achieve, then that is what we are going to get.

The demise of fiscal policy in the service of balancing the budget at any cost also sabotages potential growth. When deficits continue to rise without limit as a percentage of GDP, there is no doubt a drag on economic growth. But targeting a zero deficit is not necessarily good for growth either. Economic expansion in a technological age requires continuous investment in public infrastructure, in generic R&D, and in training and education. If we continue to sacrifice these on the altar of budget balance, we could undermine the very complementarities that growth requires. A strong case can be made that we should now be spending more on public investment, not less, if we do not want to undermine the prospects for growth.

Industry too must consider all of the complements to growth that need to be in place to assure a new era of economic expansion. Continuing to build closer working relationships with labor where both workers and managers are committed to productivity, quality, and innovation is one area where much is still to be accomplished. We must leave behind an economy where workers are treated as expendable costs rather than the crucial assets they are or could be. Expanding the level of employee training throughout the enterprise, rather than (as at present) mainly at the top, is another area where good business practice could enhance national economic growth.

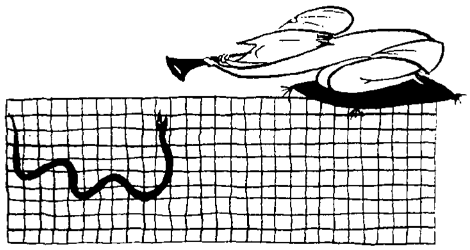
The Case for Optimism

All of this suggests that faster growth is possible—if we don't sabotage it. Changes in the labor supply are providing one leg. The maturing of the information age is providing the other. If we can make sure that fiscal and monetary policy do not sabotage growth and if we can encourage businesses to expand their investments in human capital to meet the investments they have already made in their physical plant and equipment, we will be on the road to faster growth. If we use that growth dividend wisely, we can raise living standards, reduce the gap between the rich and the poor, and help solve many of the pressing social problems we face. We can repair many of the gaps in the social safety net for both those who can work and those who cannot.

We may not be able to quite reach the pinnacle of economic growth we enjoyed during the postwar glory days, but we surely can do much better than the growth depression we have endured for the past quarter century. Indeed, we might have begun down this road a decade ago and avoided a great deal of economic and social pain, if we had shed old resistances earlier and adopted the appropriate pro-growth policies already.❑

PATRICK WILLIAM LESTER

The End of Unemployment?



Whether our current, relatively low unemployment rates can be sustained without increasing inflation has been a point of contention among economists, financial market analysts, and policymakers. Arguments over trade-offs between unemployment and inflation, however, too quickly gloss over the causes of our falling unemployment. The cause seems relatively straightforward: a sustained upturn in the business cycle. But this simple explanation overlooks another potent factor: the rising rate of labor force participation.

Compared to previous economic expansions, the economic growth of the last few years has actually been quite weak. During the previous two economic expansions, of 1975-1980 and 1982-1990, real economic growth averaged 4.3 percent and 3.6 percent per year, respectively. Real economic growth since the end of the last recession in early 1991, by contrast, has averaged an anemic 2.7 percent per year, even taking into account the recent economic surge. It seems improbable that such slow economic growth is alone responsible for our current low rate of unemployment. But if the business cycle is not solely responsible, what else is?

One deeper explanation is a quiet but fundamental shift in the workforce over the last few decades, reflecting demographic and cultural changes. These shifts, the focus of this article, deserve far more scrutiny. If they are even partially responsible for our current low unemployment rates, they could easily produce a further drop in unemployment and a substantial increase in wages. But given the Fed's aversion to tight labor markets, that happy result could produce more restrictive monetary policy and even slower growth.

EVERYBODY WORKS

While the unemployment rate has waxed and waned with changes in the business cycle, employment as a percentage of the population has increased quite dramatically. In 1963, the last year of the Kennedy administration, just 35.8 percent of the population worked. Today that number is 47.9 percent. This job growth has paralleled a substantial increase in labor force participation. In 1963 just 38 percent of the U.S. population was in the labor force. Today, thanks to a huge infusion of baby boomers and women, more than 50 percent of the population is in the labor force—working or seeking work.*

Given this sizable influx of job seekers, it is not surprising that the U.S. economy has experienced periodic high unemployment. On the contrary, what is surprising is that unemployment rates have been as low as they have been. The American economy has shown a tremendous capacity to put job seekers to work.

But even despite a small jump in recent months, this steady increase in people seeking employment seems to be reaching its natural limits. Growth in labor force participation rates, which began in the early 1960s, peaked in the 1970s at about two-thirds of a percentage point per year. The rate of growth began to slow in the 1980s, dropping roughly in half, and finally slowed to a crawl from about 1989 onward, when increases averaged about 0.07 percent per year, or roughly one-tenth the rate of increase during the 1970s. The influx of baby boomers into the job market, which crested in

*Employment and labor force participation rates are both expressed as a fraction of the entire population, not just noninstitutional civilians aged 16 and over, a more traditional measurement that undervalues the impact of baby boomers entering the workforce.

the late 1970s, has played out, and women's participation rates now nearly equal men's.

Flattening labor force participation rates spell good news for unemployment, as fewer applicants chase the existing supply of jobs. But they spell bad news for economic growth, which has been boosted substantially by the increased output of the new labor force participants. This combination provides a compelling explanation for our otherwise confusing low-growth, low-unemployment economy. Slower workforce growth may also help explain why unemployment is just now returning to levels rarely seen since the early 1970s, when the most dramatic increases in labor participation were just getting started. Employment, which has at times over the last three decades lagged well behind accelerating labor participation, may finally be catching up.

To fully understand its impact, imagine that the labor force growth rate in 1996 was what it averaged during the 1975-1980 expansion. The workforce would have grown by 3.5 million instead of 1.6 million, adding an additional 1.9 million job seekers to the 7.2 million already unemployed. Absent any additional job growth, the unemployment rate would have risen to 6.7 percent in 1996, up from 5.6 percent in 1995, instead of dropping to 5.4 percent as it did. In fact, had Bill Clinton faced the same labor force trends that confronted Jimmy Carter, last year's elections might have turned out quite differently.

Moreover, the aging of the labor force may be just as important as changes in its size. Younger workers possess fewer skills and encounter greater difficulty in both obtaining and retaining jobs. The baby boomers exacerbated unemployment not just because of their sheer numbers, but because of their youth and inexperience. The baby bust could have the reverse effect. As young workers become a smaller fraction of a labor force that is itself already shrinking, unemployment may fall even more.

In a sense, the effect of the baby boom on labor force participation has camouflaged a longer-term trend. Since as far back as World War II, male labor force participation rates have actually been dropping, mostly due to the increasing custom of retirement and the lengthening life spans of retirees. At some point this drop will occur among female workers as well. When that happens, overall labor force participation rates will contract, probably around the time baby boomers begin retiring 15 years from now. So our current labor surpluses could easily become labor shortages. Generalized unemployment might virtually disappear.

Wage Inflation and the Federal Reserve

Left unimpeded, unemployment, already hovering close to 5 percent, could easily dip toward 4 percent in the next few years. Four percent unemployment is not unheard of in this country. It once was the level economists considered full employment.

But Alan Greenspan and his compatriots at the Federal Reserve are not likely to welcome that prospect. Fearing inflation, they would feel enormous pressure from the financial community to raise interest rates to halt the downward trend. Of course unemployment has dropped to its current levels with little or no impact on inflation (perhaps due, at least partially, to the restraining impact of international trade on prices and wages). But to expect wage inflation to remain low indefinitely as unemployment continues to drop is overly optimistic. At some point the Fed would feel compelled to act.

Raising interest rates to forestall wage inflation would jeopar-

dize the ongoing health of the entire economy, and for very dubious reasons. In the current economic climate, wage increases are something to embrace, not something to fear. Real wages have been allowed to stagnate for far too long, notwithstanding recent debates by the Boskin Commission and others about the real rate of inflation and its impact on the value of those wages. Even accepting the Boskin adjustments, which remain controversial, real growth has slowed since the postwar boom and income inequality has widened. According to the Economic Policy Institute, from 1973 to 1995 real median wages dropped from $11.02 to $10.13 per hour (1995 dollars), a decline not significantly offset by a slight increase in fringe benefits. Over that same period the percentage of workers earning poverty-level wages—$7.28 or less in 1995 (1994 dollars)—increased from 23.5 to 29.7 percent.

Falling wages are often blamed on a host of factors, including slower productivity gains since 1973, dropping rates of unionization, increased trade with low-wage countries, the loss of relatively high-paying manufacturing jobs and their replacement with low-paying service-sector jobs, and a failure to raise the minimum wage enough to keep pace with inflation. But basic supply and demand at a grander scale has probably also played a role. Over the last several decades, with the labor pool expanding so quickly, the oversupply of potential workers has, no doubt, put significant downward pressure on wages. If a tightening of the labor supply is at long last turning the tables on employers, forcing them to pay more, so much the better. After years of profiting from a surplus of labor, it seems only fair that employers pay more once the surplus has dried up.

True, some of those wage increases will be passed on to consumers in the form of higher prices, and since workers are also consumers the real value of their increased wages will be somewhat diminished. But some of the cost also will be passed on to business owners and stockholders in the form of reduced profit margins. For stockholders in particular, given the rising stock prices of recent years, this seems a small price to pay. Even if real median wages are increased by just 1 percentage point a year, keeping pace with rising productivity, it would be a significant improvement over the record of the past few decades—and an improvement with practically no inflationary implications for the economy as a whole.

Hidden Unemployment

Putting aside the possibility of Fed-induced stagnation, an economic future featuring lower unemployment and rising wages sounds rosy enough. But it would be a mistake to assume that demographics alone will solve these problems entirely, even if they do have a positive influence. Even if unemployment drops, the depth of our unemployment problem is much deeper than official figures indicate. In 1996, a year when the official unemployment rate was just 5.4 percent, the total number of unemployed and underemployed was actually 9.7 percent. On top of the 7.2 million Americans who were unemployed, an additional 1.6 million were discouraged or otherwise marginally attached—workers who were neither working nor looking for work, but would have taken a job if one were offered. Another 4.1 million Americans, desiring full-time jobs, were involuntarily working part-time.

Much of this unemployment and underemployment is highly concentrated in inner-city and rural communities that are too often left behind during periods of economic prosperity. Even during times of economic growth, the unemployment rate among 16- to 19-year-old black males, for example, ranges from 30 to 50 percent. If future job growth continues to concentrate in the suburbs, many of our hardest-hit communities may continue to miss out on the benefits of an improved economy.

If the problem were just physical location, empowerment zones and transportation subsidies might be the answer, the first taking jobs to people, the second taking people to jobs. Unfortunately, the situation is more complicated than that. Job openings typically occur all along the skills spectrum, while a disproportionate number of the unemployed are unskilled. Unless enough low-skill jobs or training slots are created, a general labor shortage caused by changing demographics is no guarantee that unemployment will be eliminated.

Another potential problem has more to do with the theory itself. Neoclassical economists would argue that changing labor force participation rates have lit-

tle effect on unemployment, because prices (in this case, wages) adjust to reflect changing quantities. If the labor supply expands, wages will drop until the excess labor is fully utilized. As labor force participation rises, employment will too—as has happened. If a subsequent contraction of the labor force takes place, as may occur in the next 15 years, it will simply have the reverse effect. A tighter labor supply will push up wages, forcing many employers out of the labor market, until a new equilibrium is reached at a lower level of employment. As employment paralleled the expanding labor force on the way up, it will parallel it again on the way down, leaving unemployment unchanged.

Keynesians would dispute this simple view of labor markets and unemployment, but the potential impact of contracting labor force participation rates on unemployment should be interpreted cautiously. Interestingly, since the neoclassical view predicts rising future wages, it still leaves open the possibility of a Fed-induced recession. Knowing which view is correct will require waiting a few years. But since neither view predicts the elimination of unemployment entirely, government activism on the issue will still be necessary.

What form should activism take? The Clinton administration's primary approach to joblessness is a combination of job training and job subsidies. Unfortunately, these initiatives are probably too limited to have much impact, and may be the wrong policy solutions even if pursued more aggressively. While job training, if performed effectively, could help some of these workers, for many more the real educational challenge is basic literacy, not a lack of higher-order skills needed in our increasingly high-tech economy. Nor will training programs obviate the need to create more entry-level jobs.

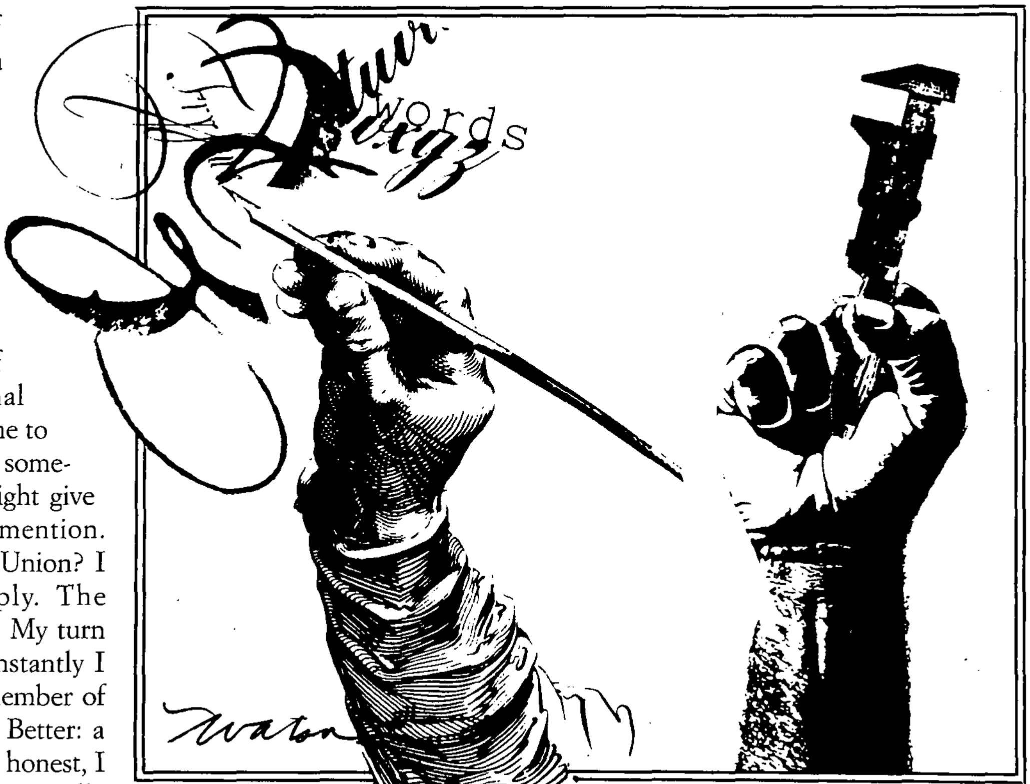
Job subsidies, an increasingly prominent fixture in the Clinton administration's arsenal of policy prescriptions since the enactment of last year's welfare reform law, are also a less than satisfactory answer. Studies by the New York-based Manpower Demonstration Research Corporation indicate that job subsidies have had, at best, a limited impact on unemployment. Job applicants who should benefit from such subsidies are too often stigmatized by them instead, and this hampers their job search efforts. When they do find jobs, the subsidy typically rewards employers for hiring someone they would have hired anyway, or subsidizes the hiring of one worker at the expense of another—with little or no net impact on unemployment.

Ultimately, eliminating the last vestiges of unemployment may require both a friendlier Fed and a targeted public jobs initiative modeled after the Works Progress Administration (WPA), a program that employed millions of Americans during the height of the Great Depression. The nation's experience in the 1970s with the poorly run Comprehensive Employment and Training Act (CETA) program, our most recent experiment in public service employment, may make the creation of such an initiative more difficult politically. But workfare programs popping up all over the country in response to last year's welfare reform law may give the concept another chance. Unfortunately, workfare poses its own problems, including the potential for subminimum wages, inadequate child care, nonuniversal eligibility, and possible displacement of government workers, to name only a few. But if workfare can be transformed into a true public service employment program with jobs paying a livable wage, it could have an enormously positive impact. Certainly the Clinton administration's National Service program has shown that community service is an idea not completely without merit. And if national unemployment levels continue to drop, the cost of eliminating the last trace of unemployment through such programs will become substantially more affordable.

True full employment is a worthy goal. Too often policymakers are lulled into believing that because an official 5 percent unemployment rate is low by both international and recent historical standards, there is nothing left to do. But "low" unemployment, by these measures, is not low enough. It still leaves millions of Americans desperate to earn a living for themselves and their families. Calling our current levels of unemployment "low" really says more about our standards than it does about the economy.❑

PAUL BERMAN

Labor and the Intellectuals

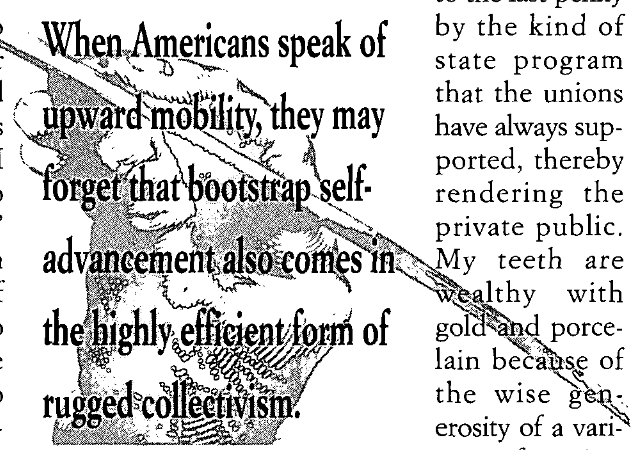


In the fall of 1996, Columbia University held a famous teach-in on the suddenly popular topic of relations between intellectuals and the labor movement, and because my name figured on the advertised list of speakers, the National Writers Union called me to express the hope that, somewhere in my talk, I might give the union a friendly mention. The National Writers Union? I was happy to comply. The teach-in got underway. My turn at the mike arrived. Instantly I proclaimed myself a member of the union in question. Better: a charter member. To be honest, I have never been an especially active or useful member of the National Writers Union, apart from paying my dues. I have even wondered about those dues, sometimes. The National Writers Union puts up a good fight, but it is not yet a very powerful force in the world of writing, and the benefits that come showering down upon its dues-paying rank and file are less than vast, relative to the dues. And when I tally up the short-term advantages in my membership—why not admit it?—I start to fidget.

But then, I didn't join our meager, struggling writers' union looking merely to the short term. In my family, we have been joining unions for what will soon be a hundred years, which makes me a wizened expert on the long term. My grandfather the tailor joined the International Ladies Garment Workers Union in 1902, meaning that in his own union, so much larger and brawnier than mine, he too was a charter member, or very nearly one. Grandpa served as the union steward at his factory for several decades, until his retirement, and was always proud of his activities and of the grand old labor leaders he had known. He thought the world of David Dubinsky. My mother the art teacher served in turn as the delegate of the United Federation of Teachers in her junior high in the Bronx for a number of years. In my case, during my student days I joined the American Federation of Musicians, Local 802, due to my exploits on the trombone, and when the exploits proved less than lucrative, I made my way to a taxi garage and ended up with a membership in the New York taxi drivers' union.

A few years later I went to work at the *Village Voice* and joined the oddly titled District 65, Distributive Workers of America, who did a very good job of distributing some of the *Village Voice*'s profits to us

employees. District 65 was a feisty little union, and when you visited the headquarters you saw framed photographs of the union's longtime leader with his sober Jewish face standing in comradely solidarity next to Martin Luther King, Jr., and the effect was cheering. Then I moved along to the writers' *union*, which, in the fullness of time, chose to affiliate with the United Auto Workers, meaning that, in the end, I have become an auto worker, organizationally speaking. And from these many affiliations and a stream of dues payments that have gushed outward from my family into the treasuries of one union after another from 1902 to the present, what exactly have I received?



When Americans speak of upward mobility, they may forget that bootstrap self-advancement also comes in the highly efficient form of rugged collectivism.

By my figuring, a lot—some of it owing to the specific services that unions provide their members, some of it owing to the wider role that unions play in American life. The unions have always campaigned for more government benefits, more public education, more opportunities for those in short supply; and I was the beneficiary of those many campaigns long before I was born. I grew up in a home with college-educated parents because (on my mother's side) the ILGWU had helped her father survive the Great Depression without sinking into poverty, and because New York City, as a good labor town, had somehow maintained a free public college for both my parents to attend (which, in our current reactionary age, has ceased to be free, needless to say). My own education, at a private university, was munificently subsidized down to the last penny by the kind of state program that the unions have always supported, thereby rendering the private public. My teeth are wealthy with gold and porcelain because of the wise generosity of a variety of union dental plans. And so it has been with me—and with any number of beneficiaries of the labor movement who have similarly used their opportunities to take up an intellectual occupation.

I know that, to many people, the idea of any connection at all between labor and the intellectuals seems faintly ridiculous. I am always astonished at how many of my bookish friends, not excluding the true-blue liberals among them, innocently picture the labor movement in grisly colors as a Mafia-led mob of horny-handed bookless know-nothings, pursuing their own petty advantage and nothing else. The preamble to the old IWW constitution famously thundered, "The working class and the employing class have nothing in common"; and these dear friends instinctively make the same thundering declaration about labor and the intellectuals. Nothing in common. Different spheres entirely. Yet there is quite a bit in common. Family histories like mine are a main thread in American society. It's just that, when Americans speak about upward mobility, they like to puff themselves up with the slippery old phrases about hard work and rugged individualism and they forget that, for many millions of people, bootstrap self-advancement also comes in the highly efficient form of rugged collectivism.

There is another, more theoretical, link between the labor movement and the intellectuals—though to see it you have to agree on a specific definition of an intellectual. In one sense, an intellectual is somebody—anybody at all—who takes a lively interest in abstract ideas and may even read books on the topic. In a stricter sociological and economic sense, an intellectual is somebody who makes a living by developing ideas or by communicating them to the world—certain kinds of writers, editors, teachers, scholars, scientists, and so forth. But there is also a third sense of the intellectual vocation, which is more of an ideal than a reality, easily embraced by people on the liberal-left side of political opinion, though not necessarily by everyone else—an ideal of intellectual life that stands midway between crusading liberalism and abstract reflection. An intellectual in this third sense is somebody who believes in truth and social justice, without squirming too much over words like *truth* and *social justice*; believes that, through rational analysis, truth and justice can be understood and advanced; believes that an intellectual's duty is precisely to achieve such under-

standings and advances. An intellectual, to put it another way, is someone, half activist and half savant, who recognizes a beloved and honored ancestor in Zola, the hero of the Dreyfus Affair—the Dreyfus Affair, during which people for the first time used the word *intellectual* in the liberal sense that I am discussing.

Now, from the vantage point of this kind of intellectual, the whole question of labor and its relation to the intellectuals is complicated by still another ideal or, better stated, a theory, older and more venerable even than the Dreyfusard notion of the activist-savant. It is a theory about the labor movement and its place in the world—a theory that labor is an interest group unlike all other interest groups; that labor fights on its own behalf, yet also on behalf of all society; that labor gazes upon the world with clearer eyes than do the other great social forces; that labor's goals are mankind's. The theory maintains that, like the liberal activist intellectuals, labor, too, stands for truth and justice, except that labor takes its stand in muscular, practical-minded ways that may actually make a difference in how the world is run.

There were always good reasons to be a little wary of certain grandiose elements in that very old and exalted theory, and we ought to acknowledge that, in recent times, the good reasons have fattened into better ones. To suppose that any group of people at all, in the labor movement or anywhere else, are inherently, by definition, fighters for the good and the true always did require a leap of faith. And what can prevent the theory about labor's inherently progressive quality from metamorphosing into a systematic lie, cleverly deployed to shine a flattering light on the bullying actions of a few? Bakunin, in the course of his debates with Marx in the 1870s, was the first to notice the malign uses to which such a theory could be put. According to Bakunin, the people who talk about the working class and its destiny to redeem mankind tend to be theory-besotted intellectuals, and what those intellectuals really mean is this: The intellectuals will rule. Which, as everyone has to admit today, was a very astute observation on Bakunin's part. For what was communism in its early, revolutionary years, before the bureaucrats took over—the years when many a person with the best of intentions still pictured communism as pure and idealistic? It was a dictatorship of the intellectuals, hidden under its proletarian coat and cap.

So—let us avoid reviving the creaky old belief in the grandiose and universal virtues of labor. And yet the notion that labor is not exactly the same as all other interest groups, that labor stands for a larger cause and not just for a narrow set of benefits—this ancient notion still seems to me, in spite of everything, to contain, deep within it, a limited truth. I say a limited truth because I don't want to suggest that labor's virtues, such as they are, genetically derive from some unalterable and invisible trait. But—this is my speculative thought—maybe the labor movement does contain, here and there, a few lingering inheritances from certain generous and imaginative worldviews of the past, which survive into the present the way old family customs sometimes survive half-consciously through the generations. There used to be, for instance, a craftsman's noble idea of work, according to which a diligent devotion to a useful trade conferred a special dignity and worth on the individual.

The labor movement in its early years considered itself the bearer of such a concept, meaning that, from the days of its founding era, the movement upheld principles about virtue and a good life that, at least in theory, applied to everyone, not just to the signed-up members of the labor guilds and organizations. In the case of our own American labor movement, it may be worth adding that, from Samuel Gompers on down to today, any number of people have come to their union work from a background in the socialist organizations—even though most of those people eventually shook off their sectarian affiliations and the more rigid socialist dogma. Or perhaps the generous quality that I am ascribing to labor is owed to other factors, maybe a combination of them—a social-minded heritage from Roman Catholicism, for instance, or the moral precepts of social-gospel Protestantism.

The American labor movement's record of standing for the interests of the larger society remains, in any case, quite impressive, if you tally up the achievements. There is the example of labor's aggressive role in making possible the New Deal—not just the legislation that benefited unions directly but also the

social measures that, by affirming government's responsibility for society, benefited the unionists and the non-unionists and even the anti-unionists. There is the example of labor's role in the civil rights revolution—a revolution in which many individual white trade unionists stood to lose their narrow privileges of caste but in which, even so, organized labor provided a large part of the institutional support. Or to cite another achievement, there is American labor's record in battling against a frightening range of totalitarian movements of the left and the right, at home and around the world.

Whole epics of that particular story, American labor's war against totalitarianism, remain even now virtually unknown to the general public. The role of, for instance, the UAW—my own union!—in trying to undermine the Franco dictatorship in Spain through the distribution of handsome American subsidies to the underground persecuted Spanish anarcho-syndicalists—who knows anything about that? It hardly needs repeating that American labor's struggles against the totalitarianism of the left took a few wrong turns now and then. The American labor movement has never been immune to the zealotries and misconceptions that sweep across other parts of American life, and during the McCarthy era and again during the Vietnam War the labor movement, except for a few smaller unions, was not always the home of wisdom. Persecutions at home, complicity with all sorts of ghastly, pact-with-the-devil foreign policy campaigns abroad—yes, those were real enough, and there's no point in failing to acknowledge it.

Yet we also ought to acknowledge that communism did pose a danger to civilization, and the American labor movement was right in wanting to oppose it. The labor movement was right to oppose the communists within its own ranks (where the Communist Party did, for a while back in the 1940s, control 20 percent of the Congress of Industrial Organizations). And it was right to lend a fraternal hand to working people in other countries in their own battles against communism. The support that American labor gave to the democratic and libertarian unionists in Western Europe, in their competition against the communists, was high-minded, in my judgment, even if sneaky. To encourage the workers of France to support the noncommunist unions over the communist ones was a favor to France. As for the American labor movement's activities in encouraging the underground anticommunist unionists of the Eastern bloc, this epic, nearly unknown even today, has got to be one of the grandest of all.

Who in American society rallied around Polish Solidarity during the dismal years when communism seemed undefeatable? It wasn't the university activists, except for a very few. The AFL-CIO might well have looked on Eastern Europe's sufferings as a matter of no concern to America's unions—might even have worried that the workers of Eastern Europe, should communism ever be overthrown, might pose a competitive challenge to the workers of America. But, no: In regard to the oppressed proletariats of the Soviet empire, the American labor movement took the same enlightened view that it did in regard to the oppressed blacks of Jim Crow America. Labor interpreted its own interests in the context of society's, and figured that working people would prosper more surely in a democratic world, and American labor stood, as a result, for the universal cause—for the cause of freedom and justice everywhere, not just the cause of better pay and conditions for a small group of people in the short term. Right now we can see that same broad-visioned instinct at work in American labor's effort to support the trade unionists of Mexico and other countries in Latin America. Which is, by the way, yet another story that, even now, remains almost wholly unknown to the wider public.

Why the lack of knowledge about labor and its achievements? Why is it that, even among some of the intellectuals who take seriously the old ideals about truth and justice, labor's good name today remains submerged in a gray cloud of unexamined assumptions about bureaucratic selfishness, lack of imagination, me-first curmudgeonliness, mobster stupidity, and so forth? I agree with everyone who affixes blame on the Vietnam War. The painful slowness of the bigger unions and the AFL-CIO as a whole to wake up to the war's futility and human cost (not to mention the economic cost) was an error on the most enormous scale. And among the many disasters that resulted was a pitiful

downturn in relations between labor and the intellectuals.

A good many younger intellectuals during the Vietnam years and for a long while after, veering sharply to the left, went about reviving the old-time Marxist-Leninist interpretation of American labor, according to which America's labor organizations are a mainstay of capitalist imperialism—as explained by Lenin himself in his dolefully influential pamphlet *Imperialism: The Highest Stage of Capitalism*. The younger scholars ended up adopting a strangely split feeling about the labor movement: a heartfelt nostalgia for labor's glorious, early, militant days, combined with a sinister view of what (in the eyes of Lenin's readers, and the readers of his readers) labor had become, especially in its foreign policy. And the labor movement responded to this calamitous drop in its prestige by sinking into a morose silence.

George Meany was a scary character. Lane Kirkland spent a long reign at the AFL-CIO in the apparent belief that nothing labor might say would influence public opinion. It is said that Kirkland's heart lay in Eastern Europe, as if he were the president of the AFL-CIO's foreign affairs committee and not of the federation itself. No one in the upper reaches of the labor movement seems to have been tempted to follow the example of the American Federation of Teachers, which took the trouble to expound its views to the outside world by purchasing weekly advertisements in the general press under a grainy photo of Albert Shanker's haggard face. Most of the labor press, judging from what I've seen, has been moronic for a long time now (though there was a time when labor papers routinely published first-rate journalism and even literature). And so, during the last few decades, the intellectuals, especially the intellectuals of the left who normally might have championed labor's cause, lost respect for the labor movement and played no part in helping labor express itself and sometimes even heaped abuse on it. And labor itself, like a sick and elderly person suffering a stroke, stared out at American society from its hospital bed with an anguished expression, utterly mute.

The idea behind the teach-ins of 1996 was to spark a new friendliness between labor and the intellectuals. The possible benefits that might accrue to certain kinds of writers and scholars from a warming of relations are easy to imagine. To mention a few: The writers and scholars may discover that, in American society, intellectuals don't have to be doomed to the lonely isolation that sometimes seems to be their fate. They may discover that there is life beyond the university. They may find themselves refreshed, stimulated, corrected—excited by new fields of inquiry and by new readerships.

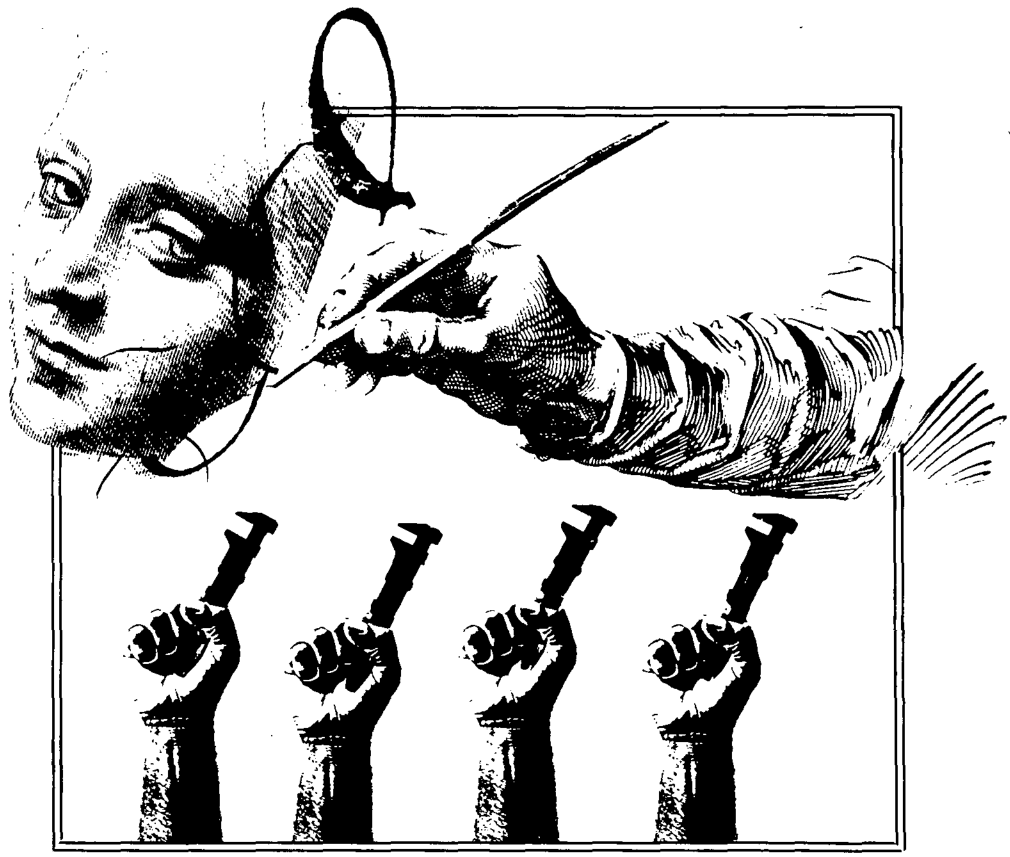
On labor's side, the potential benefits come with a few dangers, too. Trade unionists should ask themselves what will happen if, as a result of improved relations, the university intellectuals and their most idealistic students come stampeding into the labor movement, and, like a herd of healthy-looking livestock, turn out to be infected with mad cow disease, in a university version. The labor movement has so far managed not to tear itself up in internal wars over identity politics (except in a few unhappy unions, such as the hospital workers of New York several years ago, before they were rescued by new leaders). But a general disaster is entirely possible. Any country can become Yugoslavia. All you need is a few people with a sophisticated ability to coat the crudest of ethnic and gender resentments in a sheen of glamour and brilliance, and not enough people to put up a contrary argument.

Still, I hope the labor movement will go ahead with its new friendliness with intellectuals. Many a decade has come and gone since anyone looked to the American labor movement for much original thinking or clear expression. But there is no reason why labor shouldn't be a center for such things, for intelligent and open debate, and for serious journalism. The labor movement has amazing stories to tell about its own achievements and about the conditions in which ordinary people find themselves today. There is no reason why it cannot learn to tell those stories more articulately than in the past. Establishing a new friendliness with the intellectuals and the universities is a good, modest way to begin. Everyone stands to benefit—not just the unionists and the friendly intellectuals but society as a whole.❑

This essay will appear in the anthology Audacious Democracy: Labor, Intellectuals, and the Social Reconstruction of America, *edited by Steven Fraser and Joshua B. Freeman (Houghton Mifflin).*

ALAN WOLFE

The Moral Meanings of Work



In November 1996, truck drivers in France waged a strike that, in a fashion typical of that country's industrial relations, quickly produced a gridlocked society. Barely resisting, the French government settled with the truckers, granting their major demand for retirement at age 55. As Adam Gopnik reported in the *New Yorker*, most people in France believed that because of the intensity of their work, truckers deserved their reward. And as people thought about it longer, the feeling began to spread that everyone was entitled to early retirement. "The movement to lower the universal retirement age to fifty-five," Gopnik pointed out, "is the closest thing to a mass economic uprising the country has seen." For France, that's saying something.

With the election of a Socialist government, a 35-hour workweek has now become a national policy goal for France. Indeed, shorter working time seems about the only common strategy the European left has for reducing unemployment. The movement to reduce the normal workweek resonates with a particular moral conception of work. Standard economics has long conceived of work as a "disutility"—something that people do as a means to put bread on the table, not as an end. The main tradition of industrial unionism in the West has taken the economists at their word. If work is arduous and unpleasant, the solution is less to enrich it than to reduce it. Yet work has also had its defenders as well as its critics; even Karl Marx saw the human potential of work, not just the depressing reality.

WORK IN PROGRESS

The debate over the moral meaning of work begins with an argument about whether work is basically degrading or ennobling. Is work, as Herbert Marcuse argued in *Eros and Civilization*, such a restraint on people's capacities for freedom that, in a future utopia, it would become the exception and leisure the rule? Or has work, as Daniel Bell wrote in *The End of Ideology*, "always stood at the center of moral consciousness" in the West—either as a corrective to idleness in Christian doctrine, or as a necessi-

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ty for genuine humanity in the ideas of Thorstein Veblen, John Dewey, or Hannah Arendt?

Prompted by such developments as the globalization of capitalism, corporate downsizing, welfare reform, considerations of gender equality, and the appeal of voluntarism, the United States is experiencing a revival of debate over the moral meaning of work. Unlike many debates, this one is not between left and right; one can find enthusiasts for, and critics of, work on both sides of the political spectrum. It makes more sense to understand the debate as one between moderates who appreciate work for encouraging people's moral capacities but also seek to enrich it and balance it with other commitments, and those who find work oppressive and stultifying. Liberals and conservatives who maintain the latter disagree only over whether the demise of work should be celebrated in the name of freedom or its extension encouraged in the name of discipline.

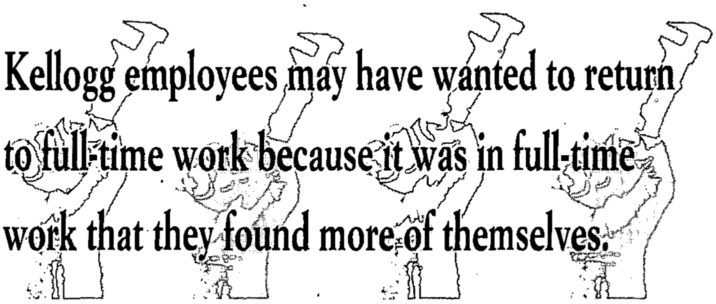
On the left, Jeremy Rifkin believes less work "is the first prerequisite for freedom." Depicting the horrors imposed by modern technology on workers, Rifkin, in his widely read book *The End of Work*, invokes all the possibilities open to people in a work-free world. Instead of being harassed by too many demands and too few hours, people will begin to enjoy leisure. Fantastic amounts of energy will be released for community endeavors to restore America's dwindling "social capital." No longer dominated by the market in human labor, capitalist societies will lose their taste for market logic in general. As Rifkin puts it, the choice is a dramatic one: either continue on the present path where larger numbers of people compete for fewer jobs, and the result will be more unemployment, inequality, crime, drugs, and prostitution; or change to a society where less work yields radically shortened working time—and more people will live with security and self-fulfillment.

Rifkin's view of a world without work is shaped by radical transformations in both the technology and social relations of work. Robotics, computer-assisted design, and artificial intelligence enable machines to carry out the more repetitive tasks once performed by human beings. At the same time, globalization and pressures to shrink labor costs reduce the number of available jobs, especially in the wealthier countries of the West. Given these trends, the humane alternative is reductions in work hours. By asking for much higher rates for overtime pay, for example, labor could force companies to adhere to a genuine 40-hour week. And by demanding more jobs on a less than 40-hour-a-week basis, the labor movement could appeal to parents of young children and the unemployed. The former need less than full-time work when their children are small; the latter would gain because a redistribution of working hours would provide more hiring opportunities.

Not surprisingly, capitalist societies have been slow to take up Rifkin's challenge. The struggle to reduce working time is as old as the industrial revolution. The 40-hour week became standard only in the 1930s. Historian

Benjamin Kline Hunnicut, in *Kellogg's Six-Hour Day,* reminds us that in December 1930, W.W. Kellogg reduced working hours at his Battle Creek cereal factory to four six-hour shifts instead of five eight-hour ones. Because each worker now worked fewer hours, more workers, including many laid off due to the Great Depression, were hired back. By the time World War II came to an end, pressures to return to "normal" were felt on all sides and the company reinstituted the 40-hour week. But some workers, especially women, fought to protect the six-hour day and did so until the 1980s. Influenced by the ideas of anti-work theorists such as Andre Gorz and Ivan Illich, and concerned, like economist Juliet Schor, that harried lives are poor lives to lead, Hunnicut looks back to the Kellogg experience to demonstrate that radical traditions of reducing hours are as relevant as ever to conditions of life at century's end.

Critics like Rifkin, Hunnicut, and the theorists on whom they rely get some things right. For the sake of children, community, and the unemployed, it makes sense for people to work fewer hours. But these critics get most other things wrong. Jobs, contrary to Rifkin, are not disappearing; one can hate capitalism for many things, but not for a failure to find new sources of growth and new kinds of jobs. Nor have technological advances displaced the need for human cognition, human adaptability, and even human personality in the workplace. Some technology has indeed led to de-skilling. But other workplaces, increasingly technologically driven, are ever more in need of people to monitor and guide the technology.



Kellogg employees may have wanted to return to full-time work because it was in full-time work that they found more of themselves.

More important is a lack of moral imagination among the critics of work. In his account of Kellogg's six-hour day, Hunnicut offers the story of Joy Blanchard, for whom the extra time given to her through a reduced workweek made possible more time with family and community. But Blanchard also fought a losing battle. Many of her neighbors and friends used their free time to "watch television, shop, or gossip." "They might just as well go back to work," Blanchard told Hunnicut, which is, in fact, what many of them did. Hunnicut laments the fact that "outside cultural forces"—he means the media—"made deep inroads into local discourse." But it may well be just as true that, with less time to work, people felt less of a sense of moral meaning. They may have wanted to go back to full-time work because it was in full-time work that they found more of themselves.

In the past, conservatives were among those who found work dehumanizing. The first great critics of industrial capitalism were romantic conservatives like Thomas Carlyle. Especially in England, newly enriched businessmen often found themselves sympathetic to aristocratic values and responded by trying to humanize and beautify the workplace. Unlike such ideas, contemporary forms of conservatism in both Great Britain and the United States are overwhelmingly libertarian in inclination. Yet the conservative critique of work has not completely disappeared.

John M. Hood, president of the John Locke Foundation in Raleigh, North Carolina, provides one example in *The Heroic Enterprise.* In a 1970 article in the *New York Times Magazine,* Milton Friedman wrote that the only responsibility of business is "to use its resources and engage in activities designed to increase its profits." Hood agrees with Friedman but thinks his formulation is easily misunderstood. It is not whether corporations *should* be socially responsible, Hood argues, but whether they *are.* Smart companies interested in maximizing their profits will, he maintains, invest in their communities, train their workers, protect the environment, encourage safe products, and revitalize cities.

What is most interesting about Hood's capitalist manifesto is its defensiveness. For in arguing that social problems exist that corporations can help rectify, Hood implicitly acknowledges that corporations

may have caused those problems in the first place. Hence as Hood turns to the question of work, he sounds remarkably like Jeremy Rifkin. When companies lay off workers, they are giving them more time to be themselves—Hood, too, likes early retirement—or to start up new ventures. Companies, it seems, are to be praised for allowing people to escape the dependency and drudgery that companies themselves impose. Herbert Marcuse was a sexual and cultural libertarian; John M. Hood is an economic libertarian. On the issue of work, there may not be that much difference between them.

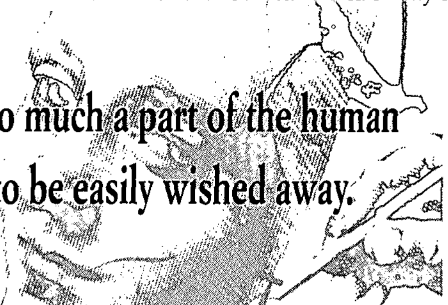
Discipline for the Lower Orders

A different stripe of modern conservative sees virtue in the rigors of work. For many conservatives, welfare causes dependency while working allows economic independence. Yet one also discerns in the conservative stance a more punitive sensibility that holds that poor people should work—not to be free, but to learn the importance of obedience. The problem with welfare, according to conservative publicist Myron Magnet in his 1993 book *The Dream and the Nightmare*, is that it brings to the underclass the Marcusean philosophy of the New Left. The reason to impose work requirements on welfare recipients is not so much that work will be fulfilling as that it will be arduous: By forcing them to recognize deadlines, production schedules, and the expectations of the hierarchy above them, working will produce in the poor the respect for discipline that welfare dependency denies them. This conservative conception of poverty, work, discipline, and social control dates at least to Mandeville's *Fable of the Bees*, the writings of Thomas Malthus, and, lately, Charles Murray.

When one finds a common point of view on both the right and left, it is either time to celebrate a new consensus or to wonder whether both sides are offbase. On the moral meaning of work, I am inclined to the latter alternative. Surely there is more to work than drudgery. A spate of recent books reveals the emergence of a new respect for work among social scientists and social critics. Not all of them gush with enthusiasm, for there remains something deeply problematic about working for others, let alone contributing to the production of goods that can be both harmful and insipid. But work is too much a part of the human condition to be easily wished away.

Daniel Bell's most important book, *The Cultural Contradictions of Capitalism*, originally published in 1976, has recently been released with a new afterword. The occasion serves as a reminder of the degree to which Bell viewed himself as an opponent of most things Marcusean. Capitalism, Bell wrote, finds itself increasingly divided between the discipline required by its productive side and the hedonism encouraged by its consumptive side. Although written as a work of dispassionate social science, there was little doubting Bell's distaste for the utopianism of the New Left, a utopianism oddly shared by the capitalist's offer of a world of consumer goods that would bring a post-scarcity economy into existence. Against such a vision, the Protestant Ethic, for all its dour distemper, did not seem such a bad thing.

Reflecting now on what he wrote then, Bell argues for an even sharper version of his thesis. The Protestant ethic, especially as formulated by Max Weber, emphasized the moral ideal of hard work as a calling, "a moral obligation that projects religious behavior onto the everyday world." But Bell also notes that the Protestant ethic may have disappeared far earlier than we ever previously imagined. Citing Simon Schama's work on the Dutch Republic, Bell shows how even at the height of the first capitalist revolution, opulence was never far from the consciousness of the bourgeoisie. Bell points to the attraction of intellectuals to postmodernism as evidence for how adversarial to productivist values the oppositional culture of bourgeois society has become. Our society, Bell concludes despairingly, is one in which "the



Work is too much a part of the human condition to be easily wished away.

Protestant ethic (now a mythos) has been overwhelmed by acquisitiveness, and Modernism has ended in the morass of postmodernism. . . ." In such a society, not only is it hard to find moral meaning in work, it is hard to find moral meaning in anything.

Yet most people work. And for most, work provides a major definition of self. For them to join intellectuals in denouncing work would be to render a considerable portion of their daily lives meaningless. Sociologists, including Max Weber, have long maintained that human beings are moral creatures in the sense that they do not merely act but also give accounts of their actions. In his book *Poor Richard's Principle*, the Princeton sociologist Robert Wuthnow relies on 200 interviews with working people—and a survey of 2,000 other working Americans—to explore whether Americans find moral meaning in their work. The short answer is that they do. People do not work only to make money, Wuthnow argues, but also "to give a legitimate account of themselves." In their workplaces, people do not see chains of command and alienated labor but other people whose lives become important to them. In feeling good about their work, they feel good about themselves. "They do not see themselves as greedy and ruthless," Wuthnow writes, "or even as overly aggressive and ambitious. They see themselves as caring, responsible individuals, pursuing the good life simply by working hard, doing their best, and enjoying the choices set before them."

One could, of course, dismiss people's belief in the moral importance of work as a form of "false consciousness" in which they do not fully grasp how oppressive work is for them. But as Robert Lane suggests in his encyclopedic 1991 book, *The Market Experience*, there is little support for the idea that work is necessarily degrading. Even work that appears to academics unchallenging "is, in fact, often difficult and challenging to workers." For better or for worse, work is one of the places in which people learn, not only about the job, but also about the wider world outside the job. Of course, those forms of work that are more under the worker's own control increase people's sense of moral responsibility. The problem, as Lane observes, is that market societies do not reliably provide enough jobs that nourish our higher aspirations. The fact that there remain so many jobs that have little self-direction or that fail to contribute to people's moral development is not an argument to reduce our dependence on work, but to encourage precisely those kinds of work that contribute to "cognitive complexity," personal competence, and liberal democratic values. Robotics and artificial intelligence, just making their appearance when Lane wrote his book, rather than signaling the end of work, might have the consequence of eliminating just those kinds of jobs that Lane found to be unstimulating for moral and cognitive development.

If work gives meaning to middle-class lives, the absence of work takes something away from those living in a world where work has disappeared.

If work gives meaning to middle-class lives, the absence of work takes something away from those living in a world where, as William Julius Wilson puts it, work has disappeared. Wilson does not discuss at any length the character of the jobs that have left inner-city communities, but he does note that work "constitutes a framework for daily behavior and patterns of interaction because it imposes disciplines and regularities." Hence, in Wilson's account, a person without work is not a full person; such an individual lacks "a coherent organization of the present—that is, a system of concrete goals and expectations."

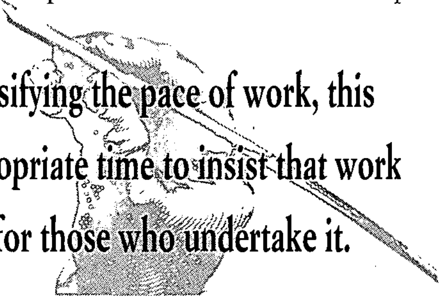
Wilson belongs neither to the left nor to the right's tradition of romanticizing a world beyond necessity. For him, the disappearance of work is not an opportunity but a tragedy. Yet Wilson parts company with those conservatives who insist on work to teach lessons of unfreedom. Conservatives see in such an agenda the necessary correctives to what they take to be immoral conduct, whereas for Wilson the "disciplines and regularities" of work provide an opportunity for deprived people to become

autonomous agents in charge of their own lives.

In his effort to find out why so many jobs have disappeared from inner-city neighborhoods, Wilson and his associates interviewed employers representing 179 Chicago-area firms seeking workers for entry-level, low-wage jobs. One of the reasons the firms said they were reluctant to hire people from the ghetto was the lack of language and mathematical skill required even for the most basic of jobs. There may well have been racist elements in their reasoning, although Wilson reports no differences on this point between black and white employers. At the same time, these employers were taking note of an unexpected consequence of the digitalization of the American economy: Jobs are not so much rendered mindless but rather require the application of cognitive capacity. Some jobs in America may have been deskilled, but most of them remain too skilled for badly educated inner-city black males without sufficient work experience.

Making Work Pay

Wilson's findings underscore the importance of Edmund S. Phelps's book *Rewarding Work*. Phelps, an economist at Columbia University, argues against the idea that low-wage workers are unproductive and unreliable because of their culture or their lack of bourgeois morals. Instead, he suggests, the gap between low-wage work and middle-class work creates disincentives for the least-paid workers to obtain the education and job skills that would enhance the economy's overall productivity. Paying the lowest-wage workers more, and thereby reducing the gap between what they make and an adequate working-class or middle-class lifestyle, would demonstrate to them the rewards of demonstrating loyalty on the job or taking on the costs of training or education. "America has no clear and explicit social policy toward the rewards of work," Phelps points out. If anything, welfare—which we may soon no longer have—acted as a disincentive to self-help. Phelps calls for a massive program of subsidies to encourage business to pay their low-wage workers more. Underlying Phelps's proposal is the idea that when people are paid based on their potential to contribute rather than by the least cost to those paying, people will raise their performance to the level at which expectations have been set.



With capitalists intensifying the pace of work, this hardly seems an appropriate time to insist that work has positive benefits for those who undertake it.

The character-building, cognition-developing nature of work, true of the inner-city poor, is also true of working-class and middle-class women, for whom entry into the workforce is often viewed not as oppression but as liberation. Now that contemporary American women have had considerable experience in the workplace, have they been repelled by the authoritarianism, impersonality, and exploitation they found there? Hardly, according to Arlie Hochschild's new book on work and family. If anything, work has proved to be too much of a good thing. It simply cannot be the case, Hochschild argues, that people work such long hours because of economic necessity. Interviewing 130 respondents, Hochschild discovered that people work long hours because they like to work. Although we have a tendency to revere the family and to think of the workplace as alien, many Americans, it would seem, are reversing those priorities. They treat the workplace as the arena in which they make friends, learn about themselves, and meet challenges, while at least for some Americans, the family has become the location for conflict, emotional complications, and unsolvable problems.

Hochschild reminds her readers that we are unlikely ever to return to the days when most women stayed at home. But unlike many of the early feminists who celebrated women's entry into the workforce as a harbinger of personal liberation, she also finds "troubling" what she calls "a workaholic culture that strands both men and women outside the home." What we need, she suggests, is a new balance, one that secures sufficient work time and opportunity for most people to

expand their social and moral horizons, but not one that does so at the cost of narrowing our obligations to those around us, especially children in need of gobs of parental attention.

A suggestive way to find that balance is offered by Shirley Burggraf in her recent book, *The Feminine Economy and Economic Man.* An economist at Florida A&M University, Burggraf argues that the entry of women into high-paying jobs indirectly establishes the price of child rearing; if a woman can earn $150,000 a year as a physician, for example, that is the minimum that society would have to pay to attract her back to the home. In their enthusiasm to see women in the workplace, liberals and feminists, in her view, pay insufficient attention to society's desperate need for parents to invest in their children. At the same time, conservatives, who generally like the notion that human beings are rational calculators of their self-interest, are hypocritical if they claim to appreciate the family but are unwilling to consider how much it would cost to induce women to be stay-at-home mothers. In a capitalist society, we value work to the degree that we establish a value for work. By paying parents for the time they invest in their children, we would finally acknowledge that the work of raising the next generation is one of the most important forms of labor in our society.

Read together, books by social scientists as diverse in perspective, discipline, and methodology as Bell, Wuthnow, Wilson, Hochschild, Phelps, and Burggraf all point to a common conclusion: Whatever a person's social class, outlook on the world, or motivations, work can be an essential component of personal development. If this is true, then perhaps the time has come for the left to give up one of its oldest romantic dreams and accept that work is here to stay.

If one accepts that work is here to stay, then the real issue becomes the terms on which work is offered and accepted. The American economy, after all, has entered a new era in which industry is obsessed with cutting costs, especially the costs of labor, to be more competitive in international markets. With capitalists intensifying the pace of work, this hardly seems like an appropriate time to insist that work has positive benefits for those who undertake it.

Yet intensified competition not only requires lower labor costs. Paradoxically, it also requires smarter and more motivated workers, at least for some occupations. Wellford Wilms, who teaches education and information studies at the University of California at Los Angeles, cites "a new culture of cooperation" emerging in companies like General Motors and Hewlett-Packard in his book. Wilms believes that flexible production systems bring with them new kinds of social relations. Unlike mass production, for which conflictual models of labor-management relations were perhaps appropriate, companies these days are negotiating "a new set of assumptions by which managers, union leaders, and workers can be guided into the future." The requirement of cooperation, Wilms emphasizes, "is rooted neither in romanticism nor in morality." Like John M. Hood, Wilms wants us to understand that self-interest and survival, not altruism, lay behind this idea of greater labor-management cooperation. Although Wilms's book is written in the kind of breathless prose characteristic of would-be management gurus, he is, I think, right to suggest that "without new and interdependent bonds between worker and manager, we will all suffer." Any such bonds, despite Wilms's denial of moral motives, will introduce questions lying at the heart of morality, especially what obligations workers and managers have toward one another and toward the companies for which they work.

Work as a Social Compact

Had Wilms more of a historical perspective, he might have mentioned the previous effort in America to create "a culture of cooperation" in the workplace: welfare capitalism. Sanford Jacoby, who also teaches at U.C.L.A., analyzes welfare capitalism in magisterial fashion in his book *Modern Manors.* Especially in the two or three decades before the New Deal, Jacoby shows, some companies, particularly those close to the rural heartland of the country, developed paternalistic labor relations policies—extended benefits, job security, or sympathetic grievance procedures—designed to win the long-term loyalty of their workers. By tracing the development of welfare capitalism as it evolved in such firms as Eastman Kodak, Sears

Robuck, and Thompson Products (later TRW), Jacoby documents that the main idea of welfare capitalism "was that corporations would shield workers from the strains of industrialism." Welfare capitalism was seen by its enthusiasts as an attempt "to develop an industrial community, a *Gemeinschaft*, that would be an alternative to Taylorized bureaucracy and to market contractualism."

If welfare capitalists found themselves using moral language, so did their workers. Jacoby cites the work of historians David Brody and Lizbeth Cohen, both of whom have pointed out the attraction to workers of welfare capitalism before the New Deal. In Cohen's treatment, workers were quite skeptical of welfare capitalism as it was actually practiced, but that was because they often wanted a genuine form of "moral capitalism," a workplace environment that treated them as the loyal individuals they believed themselves to be. Given the severity of the depression, workers obviously supported the efforts of their unions to rely on government to secure jobs and better wages. But they also came to miss the passing of a form of capitalism based on the moral ideal that they were partners in the production process.

Welfare capitalism was obviously instituted to head off the formation of independent labor unions. Its underlying assumptions, as Jacoby emphasizes in the title of his book, were feudalistic in nature. Paternalistic employers rarely hired African Americans, or even recent immigrants. Yet welfare capitalism is too interesting a historical phenomenon to be dismissed as just one more capitalist ploy.

For one thing, capitalists often became entrapped by the very moral language they promoted. As the companies studied by Jacoby adapted to new environ-

ments, "the emphasis shifted from control to consent." As a result, these firms were well positioned to take advantage of the emergence of a more highly educated workforce and even more competitive economic conditions in the 1960s and 1970s. Such firms could even adapt to the very growth of the welfare state that they were initially formed to resist, and to create private welfare states of corporate benefits. With more intense global competition and downsizing, this pattern has been reversed at many, though far from all, corporations.

Jacoby concludes his book by suggesting that the success of firms like Microsoft and Wal-Mart gives lie to the argument that paternalistic companies were effectively destroyed by the labor-friendly reforms of the New Deal. In an era of fierce global competition, paternalism will surely be too expensive to make much of a comeback. But Jacoby's analysis underscores the importance of the efforts discussed in this essay to bring work back into the perspective of social science and social criticism. One of the reasons why the women to whom Arlie Hochschild talked felt comfortable in the workplace was because the companies for which they worked, like the paternalistic firms of old, often provided day care. Few of the inner-city black poor studied by William Julius Wilson will find job training if companies do not make positive efforts to provide it. Middle managers like those interviewed by Robert Wuthnow who see themselves as contributing morally and not just economically to their companies will be more likely to flourish in the new corporate culture than those who see themselves as free agents waiting to hop to the next company in search of higher pay. If Wilms and Jacoby are even half right, there will be good economic reasons, and not just sentimental ones, for focusing on the implicit moral dimension of work.

Moreover, because welfare capitalism is, at least in its American form, anti-union, one can properly be skeptical that even a faint reemergence of its culture will necessarily be a good thing for workers. Modern firms, critics like the late David Gordon insist, are as mean as ever. Very few companies, Gordon maintains, have weaned themselves off what he calls "the Stick Strategy for managing production." By squeezing the wages of workers while enabling managerial bureaucracies to maintain themselves, American companies will take advantage of the passing of the New Deal era of labor reforms to return to the "low road" of exploitation rather than the "high road" of treating workers as productive human beings.

Yet in one way, both Gordon and Wilms can be right at the same time, for some companies surely will move to cut labor costs while others will move to reinforce worker loyalty. And both tendencies sometimes occur in the same enterprise. In many high-tech firms, a moral hierarchy is emerging: Workers who use their minds are being treated by employers as fiscal and moral partners in the enterprise, while those who use their hands are treated as disposable human commodities. Such a moral hierarchy is grievously unfair. Yet it usefully serves to establish what society requires before it can be considered egalitarian. We need not just similar conditions of pay among similar workers, nor just relative bargaining power between companies and unions, but conditions under which every working person is treated with dignity and respect.

No one—neither the pessimists like Rifkin and Gordon nor the optimists like Hood and Wilms—can predict how much work there will be in the future; how capable work will be of stretching the capacities of those who perform it; whether any work will become available to the inner-city poor; how work will be balanced against the needs of children and the elderly; what role unions will perform in organizing work; how capitalists will respond to workers' demands; or whether some kind of workplace social compact will be restored. These are, of course, political questions—yet also moral ones. And shared moral concerns can influence politics.

Any skepticism workers might have about moral language stems from the fact that it is difficult to strike against someone with whom you have close moral ties. Capitalists share some of those suspicions, for you don't easily cut the benefits of your moral partners, or fire them without notice. Many of those who speak for labor and those who speak for capital will both resist a focus on the moral dimension of work. That is why it makes sense to listen to the voices of those social scientists who remind us that work can provide the fulfillment of some, even if not all, of our needs.❑

ARNOLD S. RELMAN

Dr. Business

WORKS DISCUSSED IN THIS ESSAY

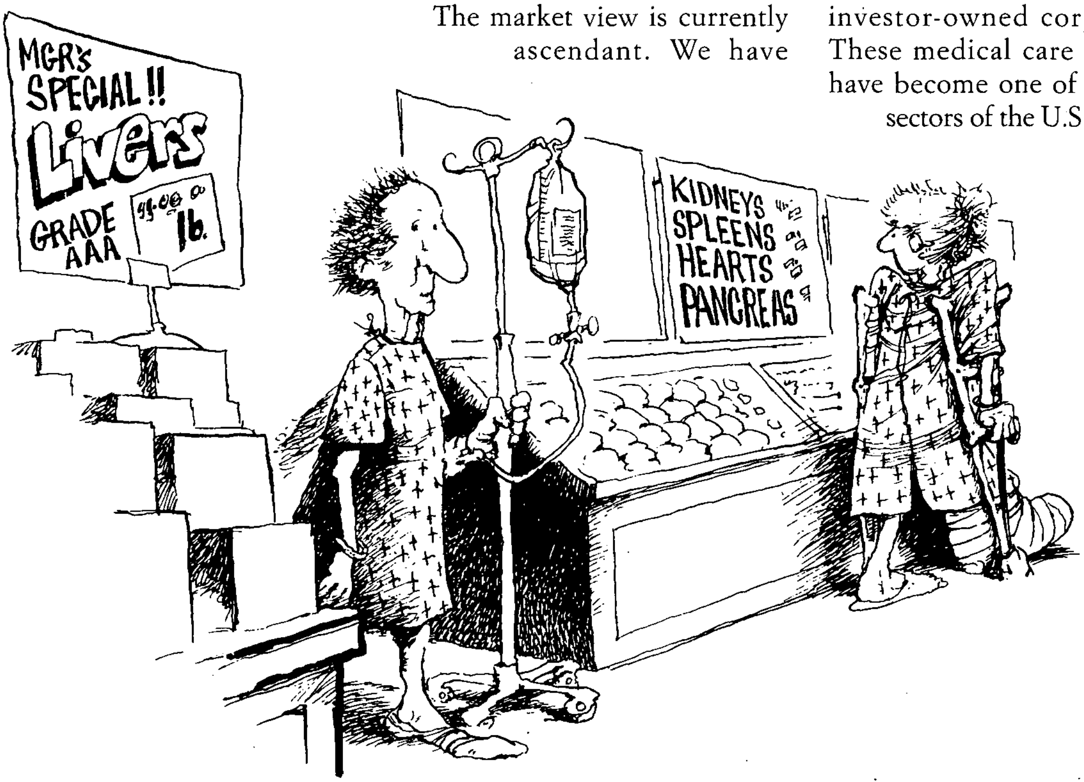
George Anders, *Health Against Wealth: HMOs and the Breakdown of Medical Trust* (Houghton Mifflin, 1996).

Regina Herzlinger, *Market-Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry* (Addison-Wesley, 1997).

Health care remains one of the most intractable domestic problems facing the United States today. To compound the issue, there isn't even agreement on what health care really is, or what it ought to be. To most physicians, like me, it involves at its core a professional relationship between patients who are sick or injured and the physicians to whom they entrust their care. But to a business school professor, like Regina Herzlinger, it is a "service industry," the products of which ought to be selected by consumers (let's not call them "patients") in a competitive marketplace, on the basis of price, convenience, and quality.

Herzlinger, who teaches at Harvard University, is on one side of a profound debate about health care and the marketplace. Can the disciplines of the market be brought to bear to control medical costs while assuring access, choice, and quality—as they do in ordinary industries? Or is health care such a far cry from a free market to begin with that recourse to the marketplace only makes its problems worse?

The market view is currently ascendant. We have been witnessing a massive shift in the control and ownership of medical care to private, for-profit businesses. Most of the control is indirectly exercised through investor-owned, managed care insurance plans, but an increasing number of inpatient and outpatient medical facilities are also being acquired and managed by investor-owned corporations. These medical care businesses have become one of the largest sectors of the U.S. economy.



Health Shoppers

Herzlinger's new book is a blueprint for transforming the health care system into a more explicitly consumer-driven market. As she sees it, buying medical care is like buying any other service or commodity the market economy offers. Smart shoppers, properly armed with information from the medical equivalent of *Consumer Reports*, should be able to seek out the vendors of the services they have decided they need and choose from among them based not only on price but on quality and convenience. Seeking to gain new customers, competing medical vendors would make every effort to provide a satisfactory product. If the market worked its usual magic, consumers would get what they wanted, efficient producers of medical services would be rewarded, prices would be kept down, and quality and innovation would be encouraged.

> Can the disciplines of the market be brought to bear to control medical costs without hurting quality? Or is health care so far from a free market that it will just make things worse.

There are multiple problems with this general view. For one thing, most medical consumers are not free to shop around. In the age of managed care and medical underwriting, a patient with a serious illness who doesn't like her care is often simply stuck, because no other insurer will take her. For another, tens of millions of consumers cannot afford to buy health coverage. Further, most experienced physicians will question Herzlinger's breezy assertion that consumers of medical care are like consumers of other services who, given enough information, can shop for the services they desire.

People may be "consumers" when they are well and are shopping for elective or routine medical services, but they are "patients" when they get sick. Those with major illnesses or injuries do not and cannot shop around for what they want. They rarely know enough to choose their own treatment. They are dependent on professional help, and they rely on their physicians to provide it. Even very intelligent, well-informed people know better than to attempt self-diagnosis when they are in serious trouble. There are few "consumers" or "smart shoppers" in hospital emergency rooms or intensive care units. Healthy economists and MBAs who talk about medical care as if it were just another business haven't yet learned that lesson.

It is fine to encourage people to become better-informed "health consumers" in the choices they make in their physicians and their treatments. But Herzlinger pushes the point beyond its logical limits. The essence of the relationship between a sick patient and a physician is trust by the patient in the competence and beneficence of the physician, and a commitment by the physician to meet his or her professional fiduciary obligations to the patient. There is nothing like that in the commercial transactions between customers and vendors that take place in service industries, even when the service is technical and beyond the understanding of most customers. "Caveat emptor" may be the watchword in commerce, but it cannot apply in medicine.

"Focused Factories"

Herzlinger offers another idea that conforms more to ordinary commerce than to medical care—single-service firms and facilities. She recommends that general care hospitals and large integrated managed care companies be replaced wherever possible by what she calls "focused factories," specialized facilities and clinics devoted to one particular disease or surgical procedure—like diabetes or asthma, or hernia repairs or open-heart surgery. She claims these "carve-out" organizations would provide care more efficiently and cheaply than the old-fashioned multipurpose hospitals and clinics, and she believes they would make shopping for health care more convenient for customers. As Herzlinger envisions the future, these "focused factories" would compete vigorously for customers and, through market forces, would transform health care into a more consumer-friendly and affordable system. This new era is almost at hand, she says, despite the resistance of stuffy old medical school professors (she names me as an example), who resent outside interference in their traditional domain.

But Herzlinger's vision of "focused factories" for medical care will be criticized not just by

old professors but by most clinicians. They know that diseases are usually not compartmentalized and that the sicker the patient is, the more important it is to deal with him or her as a whole human being, rather than as an ailing body part or organ. Patients often have more than one disease or, even when they have only one disease, they often have complications involving several organ systems. They cannot be properly treated without considering the interrelations among the several parts and dealing with the whole person. Herzlinger briefly acknowledges this problem by suggesting that each "focused factory" should have on hand the specialists and facilities needed to manage the common complications of the disease upon which the institution is focused. But that simply integrates the care of one disease at the cost of fragmenting and duplicating the resources needed for the care of other diseases. Seriously ill patients are best treated by multispecialty teams of doctors, including primary care physicians and different kinds of specialists, and these teams should work together in one multipurpose inpatient facility.

While it may make sense to integrate care for particular problems within a general hospital, freestanding specialized institutions for single diseases or procedures are of dubious value, particularly when they separate inpatients from the hospital facilities they may need in unexpected emergencies. Every large hospital center has wings or floors that can function as "focused factories" for particular diseases, but they are still an integral part of a general hospital that can deal with any complication, whether or not it is based on the condition for which the patient first sought treatment. Narrowly specialized freestanding institutions are inherently risky for sick patients. This is not to say that no freestanding specialized facilities make clinical sense. Some kinds do, particularly those that treat relatively low-risk problems on an ambulatory basis. A few of the largest and most completely staffed cancer hospitals also can provide comprehensive care when it is needed. But if Professor Herzlinger means to suggest that most general care hospitals should be broken up into physically separated and independently managed "focused factories," she doesn't understand the medical purposes of a general hospital.

> Professor Herzlinger's book is unpersuasive largely because the consumer-driven market she envisions simply isn't compatible with the realities of medical care.

Medical Gentrification

Having devoted most of her book to extolling the virtues of "market-driven" health care, Herzlinger spends only one chapter at the end on how to change the current private health insurance system to establish the market she envisions. Ironically, Herzlinger's market system is heavily dependent on government. She recognizes, quite correctly, that the present system of managed care does not allow the consumers of medical services to make their own choices with their own money. She is opposed to employers holding the money and making most of the choices of managed care plans for their employees. I share that view.

What she proposes, therefore, is a "tax-neutral," government-regulated transfer of health benefit funds from employers to employees ("based on the employee's health characteristics"), and a government requirement that employees use these funds to purchase a catastrophic health insurance policy to pay for all expenses beyond "what they can reasonably afford to pay out of their pockets." Government would also "assure the quality and availability of information about health care providers; and it would prosecute consumer and provider fraud." Large deductibles would encourage employees to shop carefully for their initial medical services each year because they would be spending their own money. Beyond that initial outlay, they would be comprehensively insured by policies they would choose themselves, using the funds paid to them by their employers.

Herzlinger gives only sketchy outlines of how her "consumer-controlled health insurance system" might work, and leaves many important questions unanswered. Many of these questions

are probably unanswerable. For example, how would government carry out all the complicated regulatory functions she lists? How would it adjust transfers according to the "health status" of an employee and his or her family? Risk adjustment for health status is not developed enough to ensure fair payment of this kind for coverage of an individual employee, let alone a family. How would government discourage low-income employees from delaying necessary care simply to avoid out-of-pocket expenses? And, once the deductible had been exceeded, what would prevent employees who chose an indemnity type of plan from overusing the insurance benefits and driving up premium costs? In short, Herzlinger fails to explain how the wide-open insurance market she advocates could be expected to work without extensive cost and quality controls by government that would inevitably constrain free choice by consumers. She cites the Federal Employees Health Benefits Program (FEHBP) as a model of what informed consumer choice can achieve, but she neglects to mention that the majority of the choices offered to federal employees (after careful screening by the government) are managed care plans—to which she is opposed.

> *Health Against Wealth* explains that the winners in the managed care industry are the employers and the HMOs. The losers are the providers and the employees.

Professor Herzlinger's book is unpersuasive largely because the consumer-driven market she envisions simply isn't compatible with the realities of medical care. Her proposal for reform also falls short because it doesn't deal with the whole health care system. Not surprisingly, given her profession, she focuses on the part of the system that is funded through employment-based insurance (by now, almost entirely under managed care). The other part, including Medicare and Medicaid and the growing army of the uninsured, is barely mentioned. This omission means that the book is mostly about medical services for the relatively young, healthy, educated, and employed members of society—like the author herself. Herzlinger's book is therefore not a proposal for general health care reform. It is instead a call for a kind of medical "gentrification"—a reconfiguration of the system to make it more accessible and convenient for those able to shop for what they want, and able to pay for it out of pocket.

Despite its obvious limitations, Herzlinger's book will probably appeal to the growing number of free-market enthusiasts who are becoming uncomfortable with the restraints and aberrations of the present managed care market. Managed care, in one form or another, may be the only viable alternative to the fee-for-service, indemnity-insured system it is replacing, but its present configuration is certainly not consumer-friendly. Furthermore, managed care plans have an inherent conflict of interest with the employees they are supposed to be serving. The less medical care a plan provides, the more of the premium the plan gets to keep. It is easy to understand why a backlash against managed care is growing so rapidly. Herzlinger's book will add strength to that protest, although it offers little in the way of practical solutions to the problem.

Health v. Wealth

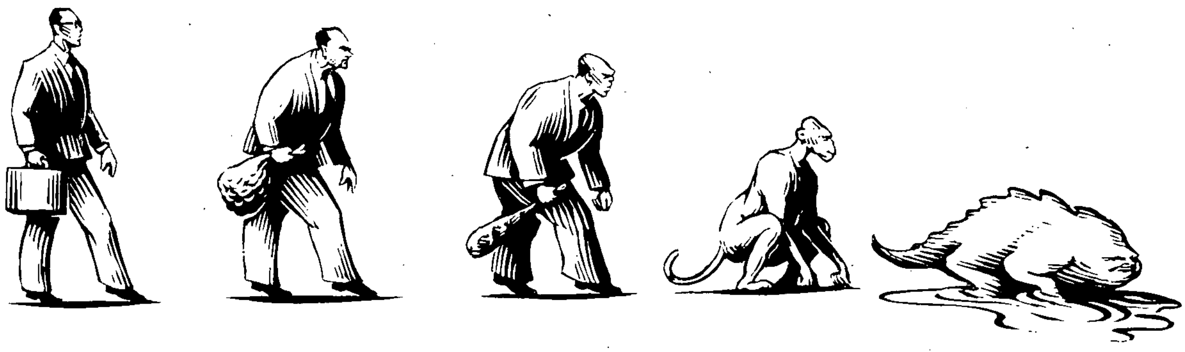
The best current book about managed care is George Anders's *Health Against Wealth*. The author, a *Wall Street Journal* medical reporter, tells the story of "HMOs and the Breakdown of Medical Trust." He describes how physicians, unable to contain rising health care costs, lost control of the medical care system to a rapidly expanding managed care industry. That industry, increasingly owned by for-profit corporations, acts as a middleman between employers and the providers of health care. Employers have negotiated lower premiums with the HMOs, but the latter have drastically reduced payments to providers, thereby assuring high profits to themselves. The winners in this new system are the employers and the HMOs. The losers are the providers and the employees.

Managed care is often described as a "market" solution to the problem of health care costs, but it isn't much like

the consumer-oriented market Herzlinger advocates. As Anders explains, the "market" in managed care is largely limited to the negotiations between employers and the managed care plans they choose for their employees. The real consumers of health care, employees, have little or no choice of plan, limited choice of physician, and—unless they want to pay the costs of seeking care outside their plan—virtually no opportunity to shop for the services they think they need.

Anders illustrates all of these limitations and predicts that the system will inevitably change. He is probably right. What will replace it is not at all clear at the moment. Anders suggests the next phase may be direct negotiation of managed care contracts between employers and the providers of medical care (physician groups and hospitals), thus bypassing the HMO companies. That would be an improvement over the present system, but it would still not allow the consumers of care to choose their own providers. Why should employers decide which doctors and hospitals their employees can use? Herzlinger is right in her objection to that arrangement, although the rest of her proposal for a consumer-driven, price-competitive market for medical care is unconvincing.

Both books make clear how far we still are from an equitable and workable health care system. To solve the manifold problems of health care in America, we will have to develop a system that deals with economic and medical realities while moving the responsibility for ownership back into the community and putting the reins of management in the hands of those who deliver and receive the care. Before we can reach that goal, we will have to accept the notion of health care as a social good rather than an economic commodity. What the public and the medical profession are learning from their current unhappy experience with commercialized medical care is that the free market cannot by itself produce the system we need. Sooner or later, we will realize that more regulation and new policies are required. What then happens will depend on how strongly physicians, patients, and not-for-profit community health care institutions press for real reform.❑



THE MARTIAN PLAN

Newt Gingrich thinks Americans need a new frontier to explore. He also believes in paying bounties to promote public objectives. Hence the proposal prepared at his invitation by space entrepreneur Robert Zubrin for a federal bounty of $20 billion payable to the first private organization that puts someone on Mars and brings that man or woman back to earth alive. The proposal is detailed in Zubrin's book, *The Case for Mars: The Plan to Settle the Red Planet and Why We Must* (Free Press), and at the "Headquarters for the Mars Direct Manned Mars Mission" on the Web site, www.magick.net/mars/.

I don't wish to disparage the idea of settling another planet; in fact, we all know a few people who might fit in better on Mars, and this would at least be a first step toward giving them the chance to relocate. But $20 billion is a steep price to pay, and members of Congress may be hesitating to set aside that much money in the federal budget for fear of being brought back to earth by the voters first.

So let me modestly suggest a few other incentives for Martian exploration that are more fiscally prudent and all highly consistent with Republican philosophy.

First, any company that sends someone to Mars could be given the right to rename the planet. We now have sports stadiums renamed after corporations, and some enthusiasts of commercial sponsorship have proposed giving national parks the names of firms that invest in them. The opportunity to rename the Red Planet would be the biggest sponsorship opportunity of all—a perpetual advertisement in the night sky and the human imagination. Children would henceforth be taught, "First comes Mercury, next is Venus, then Earth, then . . . Forbes," or "Trump," or "Disneyplanet." (Tough policy question: Would we rename Mars after Phillip Morris?)

Another possibility would be to offer space entrepreneurs the opportunity to claim ownership of Mars. Of course, we wouldn't want to give away all of Mars at once, maybe just a few million square miles at a time. Still, this would be the ultimate privatization opportunity, probably the biggest land deal since the Louisiana Purchase. Think of the gold mines, the potential to resell land for retirement homes, the exclusive rights to Martian life forms.

Third, companies could be offered the opportunity to establish tax-free "off-planet" banks and casinos on Mars. These wouldn't even require people, since they could be operated in "outercyberspace" by computers and be accessible via the Internet. But once computers established a tax-free haven, libertarians and other extraterrestrials fed up with high taxes would be sure to follow.

In the future, our descendants may speak of "planetary preferences" the way we talk about "sexual preferences." Your grandparents didn't know they had a sexual preference; you may be equally unaware of your earth-centric bias. So don't laugh about life on Mars. You may be offending a future minority group.

—*Paul Starr*